AO UniCredit Bank

Consolidated Financial Statements and
Independent Auditor’s Report
For the Year Ended 31 December 2019

AO UniCredit Bank

Table of contents

AO UniCredit Bank

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2019

Management of AO UniCredit Bank is responsible for the preparation of the consolidated financial statements that present fairly the financial position of AO UniCredit Bank and its subsidiary (collectively – the "Group") as at 31 December 2019, and the related consolidated statements of comprehensive income for the year then ended, changes in equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2019 were approved by the Supervisory Board of AO UniCredit Bank on 11 March 2020 based on the decision of Board of Management of AO UniCredit Bank dated 5 March 2020.

M. Alekseev
Chairman of the Board of Management

11 March 2020

V. Starovoytov
Acting Chief Accountant

AO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
deloitte.ru

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the Supervisory Board of AO UniCredit Bank:

Opinion

We have audited the consolidated financial statements of AO UniCredit Bank and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Assessment of expected credit losses of loans to customers	
We focused on this area because assessment of significant increase in credit risk and measurement of expected credit losses (ECL) require considerable judgement and involves estimation uncertainties. For collectively assessed loans the measurement of the ECL involves application of a complex risk rating system based on historical data adjusted for relevant forward looking information. For individually assessed loans the measurement of ECL is based on estimation of future cash flows, which requires analysis of the borrower's current and future financial performance, collateral value and evaluation of possible outcome. In particular we focused on: • The principal assumptions and significant inputs underlying the estimation of ECL and corresponding risk rating system for performing loans and the integrity of the models used in calculations; • Timely identification of significant increase in credit risk based on quantitative and qualitative factors; • The principal assumptions and significant inputs underlying the calculation of discounted cash flows for defaulted loans; • How events of default that have not yet resulted to payment default are identified. See Note 2, 3 and Note 9 to the consolidated financial statements on pages 21-25, 31-33 and 41-49 respectively.	We assessed design and implementation, and tested operating effectiveness of relevant controls over the management's processes for the assessment, measurement and monitoring the level of ECL for both collectively and individual assessed loans, including the controls over timely identification of significant increase in credit risk. We challenged the assumptions used in collective credit models and corresponding risk rating system, tested input data and analysed the integrity of those models. Our work included, among others, the following procedures: • We analysed impairment methodology and considered the potential effects on the increase in credit risk and measurement of ECL of the information, which was not captured by management's models; • We analysed management's principal assumptions based on our own knowledge of industry practices and the Group's actual experience; • We tested the integrity of the credit models used to calculate ECL, performed selective recalculations and compared the results. For a sample of collectively assessed loans we ascertain whether the significant increase in credit risk had been identified in a timely manner including, where relevant, how forbearance had been considered. For a sample of individually assessed loans we tested the forecasts of future cash flows prepared by management for measurement of ECLs including challenging the assumptions made, testing input data and comparing estimates to external evidence in respect to the relevant counterparties. We examined a sample of loans, which had not been identified by management as defaulted and formed our own judgement as to whether that was appropriate using external evidence in respect of the relevant counterparties.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
	In certain cases, we formed a different view on ECL from that of management's, but in our view, the differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties are disclosed in the consolidated financial statements.
Information Technology systems and controls We focused on this area because the Group's financial accounting and reporting systems are heavily dependent on complex information technology (the "IT") systems and the appropriate design and operating effectiveness of automated accounting procedures and technology-dependent manual controls.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial accounting and reporting process. We tested the functionality of the IT software used for calculation of expected credit losses in accordance with IFRS 9. We examined the Group's IT system's governance and change management environment, in particular the controls over program development and changes, access rights to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Group's IT systems including access management and segregation of duties. The combination of the tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the Group's IT systems for the purposes of our audit.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report and the quarterly report on securities for the 1st quarter of 2020, but does not include the consolidated financial statements and our auditor's report thereon. The mentioned reports are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on procedures performed in accordance with the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

Management of the Group is responsible for compliance with the obligatory ratios established by the Bank of Russia (the "obligatory ratios"), as well as for compliance of the Group's internal control and risk management systems with the Bank of Russia (the "CBRF") requirements.

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" (the "Federal Law") in the course of our audit of the Group's annual financial statements for 2019 we performed procedures with respect to the Group's compliance with the obligatory ratios as at January 1, 2020 and compliance of its internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Group's policies, procedures and methodologies with the CBRF requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. With respect to the Group's compliance with the obligatory ratios: the obligatory ratios as at January 1, 2020 were within the limits established by the CBRF.

   We have not performed any procedures with respect to the Group's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Group present fairly, in all material respects, the financial position of the Group as at December 31, 2019, its financial performance and its cash flows for 2019 in accordance with International Financial Reporting Standards and Russian reporting rules for annual financial statements of credit organizations.

2. With respect to compliance of the Group's internal control and risk management systems with the CBRF requirements:

   (a) In accordance with the CBRF requirements and recommendations as at December 31, 2019 the Group's internal audit department was subordinated and accountable to the Group's Supervisory Board and the Group's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBRF;

   (b) As at December 31, 2019, the Group had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;

   (c) As at December 31, 2019, the Group had a reporting system with regard to the Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;

   (d) Frequency and sequential order of reports prepared by the Group's risk management and internal audit departments in 2019 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Group's internal policies; these reports included results of monitoring by the Group's risk management and internal audit departments of effectiveness of the Group's respective methodologies and improvement recommendations;

(e) As at December 31, 2019, the authority of the Group's Supervisory Board and the Group's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Group. In order to control effectiveness and consistency of application of the Group's risk management policies, during 2019 the Group's Supervisory Board and the Group's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

We have carried out the procedures with respect to the Group's internal control and risk management systems solely to report on the findings related to compliance of the Group's internal control and risk management systems with the CBRF requirements.

Zdanevich Anna Mikhaylovna,
Engagement partner

11 March 2020

The Entity: AO UniCredit Bank

Licensed by the Central Bank of the Russian Federation on 22 December 2014, License #1.

Primary State Registration Number: 1027739082106

Certificate of registration in the Unified State Register series 77 #. 007773325 of 19.08.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39

9, Prechistenskaya emb., Moscow, Russia 119034.

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

AO UniCredit Bank

Consolidated Statement of Financial Position
as at 31 December 2019
(in thousands of Russian Roubles)

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and cash balances	5	24 268 658	15 538 848
Debt securities held for trading	6		
- held by the Group		-	5 309 437
Derivative financial assets	8	23 884 409	36 868 281
Derivative financial assets designated for hedging	8	9 873 372	6 788 150
Changes in fair value of portfolio hedged items	8	6 559 846	(1 388 458)
Financial assets at amortized cost			
- Amounts due from credit institutions	7	245 812 527	359 588 990
- Loans to customers	9	733 770 527	863 150 705
Financial assets at fair value through other comprehensive income	10		
- held by the Group		138 326 977	46 258 756
- pledged under repurchase agreements		678 732	937 601
Investments in associate	11	8 202 044	6 912 137
Fixed assets	13	12 358 165	5 450 004
Intangible assets	14	8 538 523	7 331 783
Deferred income tax assets	15	609 346	1 836 648
Current income tax assets		103 747	207 457
Other assets	16	13 461 888	7 825 207
TOTAL ASSETS		**1 226 448 761**	**1 362 615 546**
LIABILITIES			
Amounts due to credit institutions	17,20	96 509 472	87 970 079
Amounts due to customers	18	861 626 647	1 015 640 868
Debt securities issued	19	-	47 553
Financial liabilities held for trading	7	-	3 427 071
Derivative financial liabilities	8	20 957 225	23 652 339
Derivative financial liabilities designated for hedging	8	15 377 471	20 324 175
Changes in fair value of portfolio hedged items	8	3 742 597	245 169
Current income tax liabilities		9 996	140 808
Other liabilities	16	14 996 738	15 405 180
TOTAL LIABILITIES		**1 013 220 146**	**1 166 853 242**
EQUITY			
Share capital	21	41 787 806	41 787 806
Share premium		437 281	437 281
Cash flow hedge reserve		(381 731)	146 889
Revaluation reserve for financial assets at fair value through other comprehensive income		2 000 726	(2 092 519)
Foreign currency translation reserve		(71 830)	(98 835)
Fixed assets revaluation	2	4 294 938	-
Retained earnings		165 161 425	155 581 682
TOTAL EQUITY		**213 228 615**	**195 762 304**
TOTAL LIABILITIES AND EQUITY		**1 226 448 761**	**1 362 615 546**

M. Alekseev
Chairman of the Board of Management

11 March 2020

V. Starovoytov
Acting Chief Accountant

The accompanying notes on pages 12 to 86 are an integral part of these consolidated financial statements.

AO UniCredit Bank

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2019

(in thousands of Russian Roubles)

	Notes	2019	2018
Interest income and similar revenues			
Loans to customers		65 343 457	60 130 759
Derivative financial instruments		28 368 331	28 859 518
Amounts due from credit institutions		10 301 641	11 407 631
Margin from derivative financial instruments designated for hedging	8	2 662 584	931 393
Trading and investment securities		9 499 232	7 759 475
		116 175 245	**109 088 776**
Interest expense and similar charges			
Amounts due to customers		(39 931 536)	(34 093 436)
Derivative financial instruments		(26 585 984)	(26 709 340)
Amounts due to credit institutions		(8 580 215)	(6 688 426)
Debt securities issued		(3 936)	(549 539)
		(75 101 671)	**(68 040 741)**
Net interest income		**41 073 574**	**41 048 035**
Fee and commission income	24	11 809 180	11 672 387
Fee and commission expense	24	(2 852 684)	(2 938 110)
Net fee and commission income		**8 956 496**	**8 734 277**
Dividend income		18 757	4 987
Losses on financial assets and liabilities held for trading	23	(1 211 396)	(2 691 565)
Fair value adjustments in portfolio hedge accounting	8	(44 828)	79 022
Gains on disposal of:			
- financial assets at amortized cost		1 220 304	564 562
- financial assets at fair value through other comprehensive income		1 391 105	1 498 063
OPERATING INCOME		**51 404 012**	**49 237 381**
(Impairment)/recovery of impairment on:			
- financial assets at fair value through other comprehensive income		(61 846)	(44 421)
- financial assets at amortized cost	7,9	(10 395 838)	(12 607 941)
- other financial transactions	22	(340 784)	2 340 818
NET INCOME FROM FINANCIAL ACTIVITIES		**40 605 544**	**38 925 837**
Personnel expenses	25	(10 237 755)	(9 428 579)
Other administrative expenses	25	(6 574 662)	(7 010 188)
Depreciation of fixed assets	13	(718 684)	(733 323)
Depreciation of right-of-use assets	13	(653 030)	-
Impairment of fixed assets	13	(26 939)	(72 433)
Amortization of intangible assets	14	(1 756 464)	(1 554 452)
Other provisions		244 301	(47 211)
Other operating expenses		(91 168)	(177 148)
Operating costs		**(19 814 401)**	**(19 023 334)**
Share of gains of associate	11	1 263 054	954 589
Gains on disposal of fixed assets		4 793	3 900
PROFIT BEFORE INCOME TAX EXPENSE		**22 058 990**	**20 860 992**
Income tax expense	15	(4 357 925)	(4 156 924)
PROFIT FOR THE YEAR		**17 701 065**	**16 704 068**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will not be reclassified subsequently to profit or loss:			
Fixed assets revaluation	2,15	4 294 938	-
Items that may be reclassified subsequently to profit and loss			
Cash flow hedge reserve – effective portion of changes in fair value, net of tax:			
- fair value changes	15	(902 269)	407 027
- reclassification adjustment relating to financial assets and liabilities designated for hedging disposed of in the year	15	373 649	8 722
Revaluation reserve for financial assets at fair value through other comprehensive income, net of tax:			
- fair value changes	15	3 267 522	(2 352 645)
- reclassification adjustment relating to financial assets at fair value through other comprehensive income disposed of in the year	15	825 723	(1 056 310)
Foreign currency translation reserve	15	27 005	(98 835)
Other comprehensive income/(loss) for the year, net of tax		**7 886 568**	**(3 092 041)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**25 587 633**	**13 612 027**

M. Alekseev
Chairman of the Board of Management

V. Starovoytov
Acting Chief Accountant

11 March 2020

The accompanying notes on pages 12 to 86 are an integral part of these consolidated financial statements.

AO UniCredit Bank

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019
(in thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for financial assets at fair value through other comprehensive income	Foreign currency translation reserve	Fixed assets revaluation reserve	Retained earnings	Total equity
1 January 2018	**41 787 806**	**437 281**	**(268 860)**	**226 583**	**-**	**-**	**158 050 599**	**200 233 409**
Effect of change in accounting policy for application of IFRS 9	-	-	-	1 089 853	-	-	(12 313 369)	(11 223 516)
1 January 2018 (as restated)	**41 787 806**	**437 281**	**(268 860)**	**1 316 436**	**-**	**-**	**145 737 230**	**189 009 893**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	16 704 068	**16 704 068**
Other comprehensive income								
Change in cash flow hedge reserve, net of tax (Note 15)	-	-	415 749	-	-	-	-	**415 749**
Net change in revaluation reserve for financial assets at fair value through other comprehensive income, net of tax (Note 15)	-	-	-	(3 408 955)	-	-	-	**(3 408 955)**
Change in foreign currency translation reserve	-	-	-	-	(98 835)		-	**(98 835)**
Total other comprehensive income/(loss)	**-**	**-**	**415 749**	**(3 408 955)**	**(98 835)**	**-**	**-**	**(3 092 041)**
TOTAL COMPREHENSIVE INCOME/(LOSS)	**-**	**-**	**415 749**	**(3 408 955)**	**(98 835)**	**-**	**16 704 068**	**13 612 027**
Transactions with owner, directly recorded in equity								
Dividends paid on ordinary shares (Note 21)	-	-	-	-	-	-	(6 861 533)	**(6 861 533)**
Total transactions with owner	**-**	**-**	**-**	**-**	**-**	**-**	**(6 861 533)**	**(6 861 533)**
Gain on disposal of equity investment at fair value through other comprehensive income	-	-	-	-	-	-	1 917	**1 917**
31 December 2018	**41 787 806**	**437 281**	**146 889**	**(2 092 519)**	**(98 835)**	**-**	**155 581 682**	**195 762 304**
1 January 2019	**41 787 806**	**437 281**	**146 889**	**(2 092 519)**	**(98 835)**	-	**155 581 682**	**195 762 304**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	17 701 065	**17 701 065**
Other comprehensive income								
Change in cash flow hedge reserve, net of tax (Note 15)	-	-	(528 620)	-	-	-	-	**(528 620)**
Net change in revaluation reserve for financial assets at fair value through other comprehensive income, net of tax (Note 15)	-	-	-	4 093 245	-	-	-	**4 093 245**
Change in foreign currency translation reserve	-	-	-	-	27 005	-	-	**27 005**
Fixed assets revaluation reserve, net of tax (Note 2)	-	-	-	-	-	4 294 938	-	**4 294 938**
Total other comprehensive (loss)/ income	**-**	**-**	**(528 620)**	**4 093 245**	**27 005**	**4 294 938**	**-**	**7 886 568**
TOTAL COMPREHENSIVE (LOSS)/ INCOME	**-**	**-**	**(528 620)**	**4 093 245**	**27 005**	**4 294 938**	**17 701 065**	**25 587 633**
Transactions with owner, directly recorded in equity								
Dividends paid on ordinary shares (Note 21)	-	-	-	-	-	-	(8 121 322)	**(8 121 322)**
Total transactions with owner	**-**	**-**	**-**	**-**	**-**	**-**	**(8 121 322)**	**(8 121 322)**
31 December 2019	**41 787 806**	**437 281**	**(381 731)**	**2 000 726**	**(71 830)**	**4 294 938**	**165 161 425**	**213 228 615**

M. Alekseev
Chairman of the Board of Management

V. Starovoytov
Acting Chief Accountant

11 March 2020

АО «ЮниКредит Банк» Акционерное общество "ЮниКредит Банк" ОГРН 1027739082106 ИНН 7710030411 г. Москва AO UniCredit Bank

The accompanying notes on pages 12 to 86 are an integral part of these consolidated financial statements.

AO UniCredit Bank

Consolidated Statement of Cash Flows for the Year Ended 31 December 2019
(in thousands of Russian Roubles)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		113 850 861	114 366 264
Interest paid		(86 490 785)	(92 331 963)
Fees and commissions received		11 960 695	11 860 839
Fees and commissions paid		(2 767 864)	(2 826 300)
Net receipts/(payments) from debt securities held for trading		45 918	(1 994 306)
Net receipts from derivatives and dealing in foreign currencies		8 393 284	466 076
Salaries and benefits paid		(9 961 944)	(8 092 799)
Other operating expenses paid		(7 756 553)	(4 550 540)
Cash flows from operating activities before changes in operating assets and liabilities		**27 273 612**	**16 897 271**
Net decrease/(increase) in operating assets			
Obligatory reserve with the CBR		15 038	(2 877 214)
Debt securities held for trading		5 344 800	15 105 201
Amounts due from credit institutions		111 960 192	(64 318 334)
Loans to customers		116 388 885	(194 037 412)
Other assets		(5 674 241)	(2 364 457)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		4 692 546	(1 876 186)
Financial liabilities held for trading	7	(3 427 071)	(22 972 742)
Amounts due to customers		(141 891 815)	208 153 290
Other liabilities		(1 058 912)	813 246
Net cash from/(used in) operating activities before income tax		**113 623 034**	**(47 477 337)**
Income tax paid		(5 125 364)	(7 149 549)
Net cash from/(used in) operating activities		**108 497 670**	**(54 626 886)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		18 757	4 987
Purchase of associate	11	-	(6 033 031)
Purchase of financial assets at fair value through other comprehensive income		(497 467 099)	(376 050 266)
Proceeds from redemption and sale of financial assets at fair value through other comprehensive income		411 281 055	436 920 876
Proceeds from sale of fixed and intangible assets		21 948	32 241
Purchase of fixed and intangible assets		(4 224 403)	(2 549 661)
Net cash (used in)/ from investing activities		**(90 369 742)**	**52 325 146**
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of bonds issued on maturity		(45 920)	(2 301 017)
Redemption of bonds issued under put option		-	(4 000 000)
Cash outflow for lease liabilities		(622 175)	-
Dividends paid on ordinary shares	21	(8 121 322)	(6 861 533)
Net cash used in financing activities		**(8 789 417)**	**(13 162 550)**
Effect of exchange rates changes on cash and cash balances		(608 701)	800 488
Net increase/(decrease) in cash and cash balances		**8 729 810**	**(14 663 802)**
CASH AND CASH BALANCES, beginning of the year	**5**	**15 538 848**	**30 202 650**
CASH AND CASH BALANCES, ending of the year	**5**	**24 268 658**	**15 538 848**

M. Alekseev
Chairman of the Board of Management

11 March 2020

V. Starovoytov
Acting Chief Accountant

The accompanying notes on pages 12 to 86 are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of AO UniCredit Bank (hereinafter – the "Bank") and its subsidiary. AO UniCredit Bank, its subsidiary and associate are hereinafter collectively referred to as the "Group".

The Bank (the former International Moscow Bank) was established in 1989 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under General Banking License issued by the Central Bank of Russia (hereinafter – the "CBR") for banking operations for No. 1, as well as the license of the CBR for operations with precious metals for No. 1, both issued on 22 December 2014. The Bank also possesses licenses of the professional securities market participant for dealing, brokerage and depository activities issued by the Federal Securities Commission on 25 April 2003, as well as authorized to speak to the customs authorities as a guarantor. In the fourth quarter of 2019 the Bank was included in the list of investment advisors. The Bank is a member of the state deposit insurance system in the Russian Federation.

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO "RN Bank" (Russian Federation) since 2013. The remaining 60% in the authorized capital of BARN B.V. belongs to RN SF Holding B.V. (the Netherlands), which is a joint venture with equal participation (50%-50%) of RSI Bank S.A. and Nissan Motor Co., Ltd (see Note 11 for details).

As at 31 December 2019 the Group comprises the Bank, the leading operating entity of the Group, LLC UniCredit Leasing, a leasing company as its subsidiary, and holding company BARN B.V. as its associate. LLC UniCredit Leasing owns 100% of the shares in LLC UniCredit Garant. Both companies operate in the financial leasing industry on the local market. BARN B.V. is the holding company based in the Netherlands.

The consolidated financial statements include the following subsidiary and associate:

	Ownership, %			
Entities	**2019**	**2018**	**Country**	**Industry**
LLC UniCredit Leasing	100%	100%	Russia	Finance
BARN B.V.	40%	40%	Netherlands	Holding

As at 31 December 2019 the sole shareholder of the Group is UniCredit S.p.A.

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 31 December 2019 the Bank had 13 branches and 10 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus (31 December 2018: 13 branches and 10 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus).The Bank's registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

2. Significant accounting policies

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

Going concern. These consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholder have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short term obligations will be refinanced in the normal course of business.

2. Significant accounting policies (continued)

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 16 Leases. In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The date of initial application of IFRS 16 for the Group is 1 January 2019.The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information.

Impact of the new definition of a lease. The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4. The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019.

Impact on Lessee Accounting

Operating leases. IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17. Applying IFRS 16, for all leases (except as noted below), the Group:

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other administrative expenses in profit or loss.

Finance leases. The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

(Thousands of Russian Roubles)

2. Significant accounting policies (continued)

Impact on Lessor Accounting. IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Financial impact of the initial application of IFRS 16. The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current period.

Impact on profit or loss	
Increase in depreciation of right-of-use asset	(653 030)
Increase in interest expenses	(145 904)
Decrease in other administrative expenses	707 454
Decrease in profit for the year	**(91 480)**

Impact on assets, liabilities and equity as at 1 January 2019	**As previously reported**	**IFRS 16 adjustments**	**As restated**
Fixed assets	5 450 004	2 062 507	7 512 511
Other assets	7 825 207	(85 279)	7 739 928
Impact on total assets	**13 275 211**	**1 977 228**	**15 252 439**
Amounts due to customers	-	1 977 228	1 977 228
Impact on total liabilities	**-**	**1 977 228**	**1 977 228**

IBOR transition. A comprehensive reference rates reform is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms, the Group launched in October 2018 a project in order to manage the IBORs discontinuation. In 2019, the Group has ensured compliance for EURIBOR and €STR/Eonia outstanding contracts. Possible uncertainties, involving other Interbank offered rates (hereinasfter "the IBOR") IBORs, with timing and/or fallback rules applied to outstanding stock of assets, liability and derivatives however cannot be excluded.

On this regard, the Group has early adopted the "Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform" (hereinasfter – "the Amendment"). The Amendment solves a potential source of uncertainty on the effects of the Interbank offered rates (IBOR) reform on existing accounting hedge relationships that are affected by the IBOR reform, clarifying that the reform does not require to terminate such hedge relationships.

2. Significant accounting policies (continued)

The Group has adopted the Amendment with reference to 2019 for its existing hedge accounting relationships involving other IBORs, whose volume is presented below as nominal amount of hedging contracts:

RUB thousands

Hedging relationship	Hedged items	USD Libor	Other IBORs
Fair Value Hedge	Assets	145 787 923	131 432 000
	Liabilities	223 869 583	-
Cash Flow Hedge	Assets	151 726 537	3 280 000
	Liabilities	94 757 425	50 740 415

In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, the Group will continuously monitor the market and participate in the relevant public consultations.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

The Group has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

The Group has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Group applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*

The Group has adopted the amendments included in the *Annual Improvements to IFRS Standards 2015–2017 Cycle* for the first time in the current year. The *Annual Improvements* include amendments to four Standards:

IAS 12 *Income Taxes*. The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 *Borrowing Costs.* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

2. Significant accounting policies (continued)

IFRS 3 *Business Combinations*. The amendments clarify that when the Group obtains control of a business that is a joint operation, the Group applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 *Joint Arrangements*. The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Group does not remeasure its PHI in the joint operation.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IFRS 3	*Definition of a business*
Amendments to IAS 1 and IAS 8	*Definition of material*
Conceptual Framework	*Amendments to References to the* Conceptual Framework *in IFRS Standards*

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Basis of preparation. These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, financial assets at fair value through other comprehensive income, derivative financial instruments and real estate are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

These consolidated financial statements are presented in Russian Roubles (hereinafter – “RUB”). Amounts in Russian Roubles are rounded to the nearest thousand.

2. Significant accounting policies (continued)

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2019	31 December 2018
RUB/US Dollar	61.9057	69.4706
RUB/Euro	69.3406	79.4605

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved when the Bank:

- Has the power over the investee;
- Is exposed, or has rights, to variable return from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit or loss account from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the owners of the Bank and to the non-controlling interests (NCI). Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and to the NCI even if this results in the NCI having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation, with the exception of foreign currency gains and losses on intragroup monetary items denominated in a foreign currency of at least one of the parties.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the NCI are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Bank.

2. Significant accounting policies (continued)

When the Group loses control of a subsidiary, the gain/loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any NCI. All amounts previously recognised in OCI in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Foreign currencies. For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in Russian roubles which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Net interest income. Interest income and expense for all financial instruments are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. The effective interest rate (hereinafter – "EIR") is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets held for trading transaction costs are recognized in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For impaired financial assets, the interest income is calculated by applying the EIR to the amortized cost of the impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses).

Interest income and expense in the consolidated statement of profit or loss also includes the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate risk. For fair value hedges of interest rate risk interest income and expense, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

Interest income and expenses related to derivative financial instruments is presented as interest income and interest expense from derivative financial instruments.

Fee and commission income/expense. Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Group's consolidated statement of profit or loss include among other things fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

2. Significant accounting policies (continued)

Net gains/(losses) on financial assets and liabilities held for trading. Net gains/(losses) on trading assets and liabilities includes gains and losses from changes in the fair value of financial assets and financial liabilities held for trading excluding any related interest income/expense.

Dividend income. Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- For equity instruments which are held for trading, dividend income is presented as trading income;
- For equity instruments designated at FVTOCI dividend income is presented in other income.

Financial assets. The Group recognizes financial assets on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date. All financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as held-for-trading. Transaction costs directly attributable to the acquisition of financial assets classified as held-for-trading are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (hereinafter – "SPPI"), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, and equity investments are subsequently measured at fair value through other comprehensive income;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) are subsequently measured at fair value through profit and loss.

However, the Group makes the following irrevocable election / designation at initial recognition of a financial asset on an asset- by-asset basis:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income; and
- The Group may irrevocably designate a debt instrument that meets the amortized cost or fair value through other comprehensive income criteria as measured at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

<u>Debt instruments at amortized cost or at fair value through other comprehensive income.</u> The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

2. Significant accounting policies (continued)

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments that reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. The Group takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Group has not identified a change in its business models.

When a debt instrument measured at fair value through other comprehensive income is derecognized, the cumulative gain/loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain/loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortized cost or at fair value through other comprehensive income are subject to impairment.

<u>Financial assets at fair value through profit and loss.</u> Financial assets at fair value through profit and loss are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at at fair value through profit and loss using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

2. Significant accounting policies (continued)

Reclassifications. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment. The Group recognizes loss allowances for expected credit losses (hereinafter – "ECLs") on the financial instruments that are not measured at fair value through profit and loss. No impairment loss is recognized on equity investments.

With the exception of purchased or originated credit-impaired financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

2. Significant accounting policies (continued)

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired financial assets. Purchased or originated credit-impaired financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain.

Definition of default. Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (hereinafter – "PD") which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Group; or
- The borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Significant increase in credit risk. The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. The weighting of these different scenarios forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL.

2. Significant accounting policies (continued)

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

If the asset shows an increase in the probability of default compared to the date of origination of the financial instrument, a problematic change in the contract occurres or an asset becomes 30 days past due, the Group considers that an increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

In the case where the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

2. Significant accounting policies (continued)

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at fair value through other comprehensive income, where the cumulative gain/loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain/loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts. This does not apply for equity investments designated as measured at fair value through other comprehensive income, as the cumulative gain/loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss.

Write-off. Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

2. Significant accounting policies (continued)

Presentation of allowance for ECL in the statement of financial position. Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at fair value through other comprehensive income: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the revaluation reserve;
- For loan commitments and financial guarantee contracts: as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial liabilities. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss. Financial liabilities are classified as at fair value through profit or loss when the financial liability is (i) held for trading, or (ii) it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the "Gains/(losses) gains on financial assets and liabilities held for trading" line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

2. Significant accounting policies (continued)

For issued loan commitments and financial guarantee contracts that are designated as at fair value through profit or loss all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in other comprehensive income will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at fair value through profit or loss. This determination is made at initial recognition.

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

Derecognition of financial liabilities. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments. In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, interest rate swaps and cross-currency interest rate swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

The Group books the credit risk of the counterparty as a fair value adjustment for those over-the-counter derivative trades, where master netting agreement exist. Credit risk expressed in the form of credit value adjustment (hereinafter – "CVA") and debit value adjustment (hereinafter – "DVA") is determined on a portfolio basis with the counterparty. Determining CVA/DVA on a net portfolio basis has resulted in adjustments booked individually for derivative financial assets and derivative financial liabilities held for trading (see Note 8 for details).

Hedge accounting. In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

2. Significant accounting policies (continued)

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group's results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as fair value adjustments in portfolio hedge accounting. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the consolidated statement of financial position and recognized in the consolidated statement of comprehensive income as fair value adjustments in portfolio hedge accounting.

Credit risk expressed in the form of CVA and DVA is also incorporated in the calculation of the fair value of derivative financial assets and derivative financial liabilities designated for hedging (see Note 8 for details).

Embedded derivatives. Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at fair value through profit or loss and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at fair value through profit or loss are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue. The Group has not designated any financial guarantee contracts as at fair value through profit or loss.

Cash and cash balances. The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Obligatory reserve with the CBR. Obligatory reserve with the CBR represent obligatory reserve deposits with the CBR, which are not available to finance the Group's day-to-day operations.

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

(Thousands of Russian Roubles)

2. Significant accounting policies (continued)

Fixed assets. For the purposes of preparing the financial statements as at 31 December 2019, the Group has decided to change the evaluation criterion of real estate fixed assets providing for the transition from the cost model to the revaluation model for the measurement subsequent to initial recognition. IAS 8 establishes that for the purposes of the valuation of the property, plant and machinery, regulated by IAS 16, the transition from the cost criterion to the revaluation model must be represented as a normal application in continuity of the revaluation mode. As a result, the revaluation model has been applied prospectively and not retrospectively as required by the general principle reported in IAS 8 without, therefore, making any adjustment of the opening balances of the comparative year and of the comparative data. Consequently, as at 31 December 2019 real estate properties were recalculated at the related fair values which were determined through the use of independent expert evaluators through the preparation of specific appraisals. The differences between these values and the previous values determined by applying the "cost" criterion was recognized in the other comprehensive income. As the change in the evaluation criterion took place at the end of the year, the calculation of the depreciation for the 2019 financial year was made with the previous cost criterion.

The table below shows the overall impact on financial statements as of 31 December 2019:

Impact on assets, liabilities and equity as at 31 December 2019	**Cost model**	**Revaluation**	**Revaluation model**
Cost	6 404 130	37 080 595	43 484 725
Accumulated depreciation	(2 614 850)	(31 711 922)	(34 326 772)
Impact on total assets	**3 789 280**	**5 368 673**	**9 157 953**
Revaluation reserve in other comprehensive income	-	5 368 673	5 368 673
Deferred income tax		(1 073 735)	(1 073 735)
Impact on total equity	**-**	**4 294 938**	**4 294 938**

Starting from 31 December 2019, land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Construction in progress is carried at cost, less any recognised impairment loss. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

2. Significant accounting policies (continued)

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is calculated over the following estimated useful lives:

	Years
Buildings	50
Furniture and fixtures	3-5
Computer equipment	3
Other fixed assets	3-5

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets. Intangible assets include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years. In case of license obtaining with actual usage for a period of more than 10 years, the useful life is considered till the date, fixed in the contract.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of ten years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Taxation. Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2. Significant accounting policies (continued)

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

There are various operating taxes in the Russian Federation that are assessed on the Group's activities. These taxes are included as a component of other administrative expenses in the consolidated statement of comprehensive income.

Fiduciary activities. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate.

The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Other provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations. The Group makes contributions to the State Pension System of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital. Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

2. Significant accounting policies (continued)

Segment reporting. An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Contingencies. Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

3. Significant accounting judgements and estimates

In the application of the Group's accounting policies the Group management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Recoverability of deferred tax assets. The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realised. As of 31 December 2019 the carrying value of deferred tax assets amounted to RUB 609 346 thousand (31 December 2018: 1 836 648 thousand).

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk. As explained in note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Models and assumptions used. The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. For Group-wide segments the Group uses the UniCredit Group IFRS 9 models. Local PD, LGD, EAD (exposure at default) and TL (transfer logic) models have been developed and implemented for all local segments. ECL is calculated for Group-wide and local segments with IFRS 9 parameters on separate contract level.

3. Significant accounting judgements and estimates (continued)

Measurement of ECL. The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery and recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan. The Group uses EAD models that reflect the characteristics of the portfolios.

Incorporation of forward-looking information. The Group uses forward-looking information that is provided by Unicredit Group (the parent company). Forward-looking information is accounted for by means of a non-linear scaling approach of the PDs/LGDs to a target PD/LGD level, which integrates the expectations about the future economic conditions. In line with the current best practices in the banking industry, the Group leverages on the Stress Test Models for including macro-economic effects into the expected credit losses.

The stress test models (or satellite models) are set of models aimed at translating the macro-economic conditions into credit risk parameters (PD/LGD). Within the wider stress testing framework the models serve as basis for calculating the stressed PD/LGD under the Adverse Scenarios adopted for the for stress test purposes They are used both for regulatory and managerial stress test exercises.

Fair value measurement and valuation process. In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. The valuation of the Group's real estate portfolio includes some degree of uncertainty and is based on assumptions. As at 31 December 2019 buildings are revalued based on the results of an independent appraisal performed by independent appraiser with recognized and relevant professional qualification.

(Thousands of Russian Roubles)

3. Significant accounting judgements and estimates (continued)

Change in presentation. Starting from 1 January 2019, the Group has decided to present contractual interest accrued for Stage 3 loans gross with simultaneous provisioning of this contractual interest. The details of this change and effect on disclosure in the consolidated financial statements are presented as follows:

	As previously reported	Effect of reclassifications	As adjusted
Gross loans to customers (Note 9)	919 329 207	4 558 336	923 887 543
Impairment loss allowance (Note 9)	(56 178 502)	(4 558 336)	(60 736 838)
Loans to customers (Note 9)	863 150 705	-	863 150 705

4. Operating segments

For the management purposes, the Group has four reporting business segments:

Corporate and Investment banking (hereinafter – *"CIB")* includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking comprises banking services to private individuals and Small and Medium Entities (hereinafter – "SME"), credit and debit card services, retail sight and term deposit services, lending to SME and retail lending (consumer loans, car loans and mortgages).

Leasing represents the leasing activities of the Group.

Other represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	31 December 2019	31 December 2018
Assets		
CIB	917 766 045	1 096 420 095
Retail banking	181 838 590	146 328 653
Leasing	33 771 082	27 526 767
Other	93 073 044	92 340 031
Total assets	**1 226 448 761**	**1 362 615 546**
Liabilities		
CIB	650 286 432	821 870 005
Retail banking	321 221 666	299 824 819
Leasing	28 585 015	23 207 443
Other	13 127 033	21 950 975
Total liabilities	**1 013 220 146**	**1 166 853 242**

(Thousands of Russian Roubles)

4. Operating segments (continued)

Segment information for the operating segments for the year ended 31 December 2019 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income/(expense) from external customers	29 642 235	11 165 132	1 735 527	(1 469 320)	41 073 574
Inter-segment (expense)/income	(4 519 110)	1 124 945	-	3 394 165	-
Net interest income	**25 123 125**	**12 290 077**	**1 735 527**	**1 924 845**	**41 073 574**
Net fee and commission income from external customers	3 386 364	5 537 139	32 993	-	8 956 496
Dividend income	-	-	-	18 757	18 757
(Losses)/gains on financial assets and liabilities held for trading from external customers	(2 564 280)	1 364 799	140	(12 055)	(1 211 396)
Fair value adjustments in portfolio hedge accounting	-	-	-	(44 828)	(44 828)
Gains on disposals of financial assets	2 498 516	112 893	-	-	2 611 409
Operating income	**28 443 725**	**19 304 908**	**1 768 660**	**1 886 719**	**51 404 012**
Impairment on loans and other financial transactions	(6 421 969)	(4 168 978)	(207 521)	-	(10 798 468)
Net income from financial activities	**22 021 756**	**15 135 930**	**1 561 139**	**1 886 719**	**40 605 544**
Operating costs including:	(6 263 523)	(11 396 962)	(431 581)	(1 722 335)	(19 814 401)
depreciation of fixed assets and amortization of intangible assets	(871 083)	(2 253 158)	(3 937)	-	(3 128 178)
impairment of fixed assets	-	(26 939)	-	-	(26 939)
Share of gain in associate	-	-	-	1 263 054	1 263 054
Gains on disposal of fixed assets	-	-	-	4 793	4 793
Profit before income tax expense	**15 758 233**	**3 738 968**	**1 129 558**	**1 432 231**	**22 058 990**
Income tax expense					(4 357 925)
Profit for the year					**17 701 065**
Cash flow hedge reserve					(528 620)
Revaluation reserve for financial assets at fair value through other comprehensive income					4 093 245
Fixed assets revaluation					4 294 938
Foreign currency translation reserve					27 005
Total comprehensive income					**25 587 633**

(Thousands of Russian Roubles)

4. Operating segments (continued)

Segment information for the operating segments for the year ended 31 December 2018 is set out below:

	CIB	Retail banking	Leasing	Other	Total
Net interest income/(expense) from external customers	29 923 000	9 655 448	1 558 492	(88 905)	41 048 035
Inter-segment (expense)/income	(2 292 547)	1 688 265	-	604 282	-
Net interest income	**27 630 453**	**11 343 713**	**1 558 492**	**515 377**	**41 048 035**
Net fee and commission income from external customers	3 604 607	5 096 769	32 901	-	8 734 277
Dividend income	-	-	-	4 987	4 987
(Losses)/gains on financial assets and liabilities held for trading from external customers	(4 132 146)	1 457 300	983	(17 702)	(2 691 565)
Fair value adjustments in portfolio hedge accounting	-	-	-	79 022	79 022
Gains on disposals of financial assets	1 663 199	399 426	-	-	2 062 625
Operating income	**28 766 113**	**18 297 208**	**1 592 376**	**581 684**	**49 237 381**
Impairment on loans and other financial transactions	(7 373 649)	(2 684 144)	(253 751)	-	(10 311 544)
Net income from financial activities	**21 392 464**	**15 613 064**	**1 338 625**	**581 684**	**38 925 837**
Operating costs including:	(6 500 031)	(10 680 068)	(402 539)	(1 440 696)	(19 023 334)
depreciation of fixed assets and amortization of intangible assets	(822 436)	(1 462 507)	(2 832)	-	(2 287 775)
impairment of fixed assets	(15 322)	(57 111)	-	-	(72 433)
Share of gain in associate	-	-	-	954 589	954 589
Gains on disposal of fixed assets	-	-	-	3 900	3 900
Profit before income tax expense	**14 892 433**	**4 932 996**	**936 086**	**99 477**	**20 860 992**
Income tax expense					(4 156 924)
Profit for the year					**16 704 068**
Cash flow hedge reserve					415 749
Revaluation reserve for financial assets at fair value through other comprehensive income					(3 408 955)
Foreign currency translation reserve					(98 835)
Total comprehensive income					**13 612 027**

(Thousands of Russian Roubles)

4. Operating segments (continued)

Information about major customers and geographical areas. The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of net interest income is based on the geographical location of customers and assets.

Geographical information on net interest income and assets for 2019 is presented below:

	Net interest income	Assets
Russian Federation	31 527 562	1 029 040 072
OECD countries	7 890 840	171 146 139
Non-OECD countries	1 655 172	26 262 550
Total	**41 073 574**	**1 226 448 761**

Geographical information on net interest income and assets for 2018 is presented below:

	Net interest income	Assets
Russian Federation	32 574 486	1 134 812 351
OECD countries	6 017 801	181 603 646
Non-OECD countries	2 455 748	46 199 549
Total	**41 048 035**	**1 362 615 546**

5. Cash and cash balances

Cash and cash balances comprise:

	31 December 2019	31 December 2018
Cash on hand	10 973 214	12 091 358
Current accounts with the CBR	13 295 444	3 447 490
Cash and cash balances	**24 268 658**	**15 538 848**

6. Debt securities held for trading

Debt securities held for trading comprise:

	31 December 2019	31 December 2018
USD denominated		
Russian Government Eurobonds	-	1 556 909
RUB denominated		
Russian Government Bonds	-	3 752 528
Debt securities held for trading	**-**	**5 309 437**

(Thousands of Russian Roubles)

6. Debt securities held for trading (continued)

As at 31 December 2018 all debt securities held for trading were rated no lower than “BBB-”.

Nominal interest rates and maturities of debt securities held for trading are as follows:

	31 December 2019		**31 December 2018**	
	%	**Maturity**	**%**	**Maturity**
Russian Government Bonds	-	-	6.9-8.15%	2027, 2034
Russian Government Eurobonds	-	-	5.25%	2047

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2019	**31 December 2018**
Current accounts with credit institutions	46 028 899	82 623 139
Time deposits	140 059 986	114 733 010
Reverse repurchase agreements with credit institutions	47 973 174	150 678 666
Obligatory reserve with the CBR	11 957 146	11 973 998
Gross amounts due from credit institutions	**246 019 205**	**360 008 813**
Less: allowance for loan impairment	(206 678)	(419 823)
Total amounts due from credit institutions	**245 812 527**	**359 588 990**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Group’s ability to withdraw such deposit is significantly restricted by the statutory legislation.

A reconciliation of the impairment loss allowance by stages for the year 2019 is as follows:

	2019		
	Stage 1	**Stage 2**	**Total**
Impairment loss allowance at 1 January	**419 789**	**34**	**419 823**
(Recovery)/charge for the year	(208 035)	336	(207 699)
Effect of exchange rate changes	(5 076)	(370)	(5 446)
Impairment loss allowance at 31 December	**206 678**	**-**	**206 678**

A reconciliation of the impairment loss allowance by stages for the year 2018 in accordance with IFRS 9 is as follows:

	2018		
	Stage 1	**Stage 2**	**Total**
Impairment loss allowance at 1 January	**-**	**-**	**-**
Effect of change in accounting policy due to IFRS 9 adoption	515 196	-	515 196
At 1 January according to IFRS 9	**515 196**	**-**	**515 196**
(Recovery)/charge for the year	(128 439)	34	(128 405)
Effect of exchange rate changes	33 032	-	33 032
Impairment loss allowance at 31 December	**419 789**	**34**	**419 823**

(Thousands of Russian Roubles)

7. Amounts due from credit institutions (continued)

The following table shows gross amounts due from credit institutions and related impairment distributed by stages according to IFRS 9 as at 31 December 2019:

	Stage 1	Stage 2	Total
Gross loans	246 019 205	-	246 019 205
Impairment	(206 678)	-	(206 678)
Total amounts due from credit institutions	**245 812 527**	**-**	**245 812 527**

The following table shows gross amounts due from credit institutions and related impairment distributed by stages according to IFRS 9 as at 31 December 2018:

	Stage 1	Stage 2	Total
Gross loans	359 347 096	661 717	360 008 813
Impairment	(419 789)	(34)	(419 823)
Total amounts due from credit institutions	**358 927 307**	**661 683**	**359 588 990**

As at 31 December 2019 there are two counterparties with balances that individually exceeded 10% of the Group's equity. As at 31 December 2019, the aggregate amount of these balances is RUB 153 934 130 thousand (31 December 2018: three counterparties with aggregate amount of RUB 281 764 826 thousand). As at 31 December 2019, an allowance of RUB 94 952 thousand was recognised against these loans (31 December 2018: RUB 341 010 thousand).

As at 31 December 2019 and 31 December 2018 the Group entered into reverse repurchase agreements with a number of Russian banks. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2019 and 31 December 2018 comprise:

	31 December 2019		31 December 2018	
	Gross amount of loans	Fair value of collateral	Gross amount of loans	Fair value of collateral
Government bonds	28 475 415	30 804 471	82 352 092	88 335 606
Corporate bonds	10 148 255	11 717 277	61 255 653	70 175 830
Bank bonds	9 349 504	10 275 712	7 070 921	7 351 378
Total	**47 973 174**	**52 797 460**	**150 678 666**	**165 862 814**

As at 31 December 2019 there are no securities which are sold out of collateral pledged under reverse repurchase agreements with credit institutions and disclosed as financial liabilities held for trading in the consolidated statement of financial position (31 December 2018: RUB 3 427 071 thousand).

As at 31 December 2019 included in government bonds are securities in the amount of RUB 336 421 thousand (31 December 2018: none) which were repledged under repurchase agreements with credit institutions (see Note 17 for details). The Group has the obligation to return these securities at the maturity of the related reverse repurchase agreements.

As at 31 December 2019 approximately 85% (31 December 2018: 86%) of amounts due from credit institutions were placed with banks rated not lower than "BBB-".

As at 31 December 2019 the Group had no term placements with the CBR. As at 31 December 2018 the Group had term placements with the CBR in the amount of RUB 3 001 110 thousand.
As at 31 December 2018, an allowance of RUB 3 021 thousand was recognised against these loans.

(Thousands of Russian Roubles)

8. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

The Group values the derivative financial instruments using widely accepted valuation techniques, which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value of derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	31 December 2019			31 December 2018		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Cross-currency interest rate swaps	245 993 056	11 294 188	9 589 482	306 709 553	25 747 186	16 471 553
Interest rate swaps and options	323 171 704	9 022 310	7 395 456	427 697 625	5 248 843	4 497 636
Foreign exchange forwards, swaps and options	193 016 771	3 567 911	3 972 287	271 822 270	5 872 252	2 683 150
Total derivative financial assets/ liabilities		**23 884 409**	**20 957 225**		**36 868 281**	**23 652 339**

The change in fair value of the trading derivative financial instruments attributable to changes in the counterparty credit risk amounts to a gain of RUB 329 553 thousand for the year ended 31 December 2019 (31 December 2018: loss of RUB 26 774 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	31 December 2019			31 December 2018		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Cash flow hedge						
Interest rate swaps	308 390 052	2 214 494	2 034 270	557 327 810	2 339 692	1 713 468
Cross-currency interest rate swaps	102 626 167	1 715 392	1 988 260	190 026 893	505 258	13 004 256
Total cash flow hedge		**3 929 886**	**4 022 530**		**2 844 950**	**14 717 724**
Fair value hedge						
Interest rate swaps	698 733 214	5 943 486	11 354 941	639 715 294	3 943 200	5 606 451
Total fair value hedge		**5 943 486**	**11 354 941**		**3 943 200**	**5 606 451**
Total derivative financial assets/ liabilities designated for hedging		**9 873 372**	**15 377 471**		**6 788 150**	**20 324 175**

Portfolio Fair Value Hedge Accounting (hereinafter – the "PFVHA") is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items.

8. Derivative financial instruments (continued)

The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

The hedging instruments to hedge variability of fair value are measured at fair value with negative changes in fair value of RUB 2 816 698 thousand recognised in portfolio hedge accounting as at 31 December 2019 (31 December 2018: positive changes of RUB 1 633 470 thousand), presented as a loss of RUB 4 450 325 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2019 (31 December 2018: presented as a gain of RUB 5 434 704 thousand).

The positive changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as RUB 2 817 249 thousand as at 31 December 2019 (31 December 2018: negative changes in the amount of RUB 1 633 627 thousand), presented as profit of RUB 4 450 876 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2019 (31 December 2018: presented as a loss of RUB 5 434 861 thousand).

Fair value adjustments in portfolio hedge accounting amounted to a loss of RUB 44 828 thousand for the year ended 31 December 2019 (31 December 2018: gain of RUB 79 022 thousand) and consists of a positive difference between a negative change in fair value of financial instruments designated for hedging purposes and a positive change in fair value of hedged items in the amount of RUB 551 thousand (31 December 2018: negative change of RUB 157 thousand) and a negative change in counterparty credit risk attributable to derivative financial instruments designated for hedging purposes in the amount of RUB 45 379 thousand for the year ended 31 December 2019 (31 December 2018: positive change of RUB 79 179 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

Along with PFVHA the Group uses Portfolio Cash Flow hedging. The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2027 for interest rate swaps and cross-currency interest rate swaps. As at 31 December 2019, the negative effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised in equity was RUB 381 731 thousand (31 December 2018: positive amount of RUB 146 889 thousand), net of tax RUB 95 433 thousand (31 December 2018: RUB 30 884 thousand).

Margin from derivative financial instruments designated for hedging amounted to RUB 2 662 584 thousand for the year ended 31 December 2019 (31 December 2018: RUB 931 393 thousand) and consists of interest income from derivative financial instruments designated for hedging in the amount of RUB 35 860 291 thousand (31 December 2018: RUB 32 044 117 thousand) and interest expenses from derivative financial instruments designated for hedging in the amount of RUB 33 197 707 thousand (31 December 2018: RUB 31 112 724 thousand).

(Thousands of Russian Roubles)

9. Loans to customers

Loans to customers comprise (see Note 3 for details of change in presentation for 31 December 2018):

	31 December 2019	31 December 2018
Corporate customers	543 100 726	709 638 390
Retail customers, including SME	197 027 967	161 858 230
Lease receivables	30 025 485	24 341 470
Reverse repurchase agreements with companies	7 736 381	28 049 453
Gross loans to customers	**777 890 559**	**923 887 543**
Less: allowance for loan impairment	(44 120 032)	(60 736 838)
Total loans to customers	**733 770 527**	**863 150 705**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2019 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2019	**44 497 554**	**15 610 619**	**628 665**	**60 736 838**
Charge for the year	6 241 154	4 154 862	207 521	10 603 537
Loans sold or recovered through acceptance of collateral during the year	(10 924 569)	(3 945 634)	-	(14 870 203)
Loans written-off during the year	(12 106 977)	(1 119 956)	(116 617)	(13 343 550)
Effect of allowance for accrued interest at Stage 3	1 689 478	883 351	-	2 572 829
Effect of exchange rate changes	(1 368 641)	(210 778)	-	(1 579 419)
At 31 December 2019	**28 027 999**	**15 372 464**	**719 569**	**44 120 032**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2018 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
Impairment loss allowance at 1 January 2018	**28 523 430**	**13 924 746**	**338 867**	**42 787 043**
Effect of change in accounting policy due to IFRS 9 adoption	5 822 117	4 358 582	126 437	10 307 136
At 1 January 2018	**34 345 547**	**18 283 328**	**465 304**	**53 094 179**
Charge for the year	9 838 939	2 643 656	253 751	12 736 346
Loans sold or recovered through acceptance of collateral during the year	(217 010)	(6 559 527)	-	(6 776 537)
Loans written-off during the year	(3 810 354)	(681 681)	(90 390)	(4 582 425)
Unwinding of discount	(616 728)	-	-	(616 728)
Effect of exchange rate changes	1 986 425	337 242	-	2 323 667
Change in presentation (Note 3)	2 970 735	1 587 601	-	4 558 336
At 31 December 2018	**44 497 554**	**15 610 619**	**628 665**	**60 736 838**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

A reconciliation of the impairment loss allowance by stages in accordance with IFRS 9 for the year ended 31 December 2019 is as follows:

	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment loss allowance at the beginning of the year according to IFRS 9	**7 599 346**	**2 843 461**	**50 294 031**	**60 736 838**
Transfer to stage 1	425 261	(372 634)	(52 627)	**-**
Transfer to stage 2	(542 587)	575 451	(32 864)	**-**
Transfer to stage 3	-	(1 260 970)	1 260 970	**-**
(Recovery)/charge for the period	(845 058)	1 563 627	9 884 968	**10 603 537**
Loans sold or recovered through repossession of collateral during the period	(39 344)	-	(14 830 859)	**(14 870 203)**
Loans written-off during the period	-	-	(13 343 550)	**(13 343 550)**
Effect of allowance for accrued interest at Stage 3	-	-	2 572 829	**2 572 829**
Effect of exchange rate changes	(253 610)	(59 914)	(1 265 895)	**(1 579 419)**
Impairment loss allowance at the end of the year according to IFRS 9	**6 344 008**	**3 289 021**	**34 487 003**	**44 120 032**

A reconciliation of the impairment loss allowance by stages in accordance with IFRS 9 for the year ended 31 December 2018 is as follows:

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment loss allowance at the beginning of the year according to IFRS 9	**8 357 461**	**2 961 651**	**41 775 067**	**53 094 179**
Transfer to stage 1	932 072	(881 343)	(50 729)	**-**
Transfer to stage 2	(2 134 477)	2 177 952	(43 475)	**-**
Transfer to stage 3	-	(2 362 924)	2 362 924	**-**
Charge for the period	510 065	946 450	11 279 831	**12 736 346**
Assets sold or recovered through repossession of collateral during the period	(41 793)	-	(6 734 744)	**(6 776 537)**
Assets written-off during the period	-	-	(4 582 425)	**(4 582 425)**
Unwinding of discount	-	-	(616 728)	**(616 728)**
Effect of exchange rate changes	(23 982)	1 675	2 345 974	**2 323 667**
Change in presentation (Note 3)	-	-	4 558 336	**4 558 336**
Impairment loss allowance at the end of the year according to IFRS 9	**7 599 346**	**2 843 461**	**50 294 031**	**60 736 838**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The tables below analyze information about the significant changes in the gross carrying amount of loans to customers during the period ended 31 December 2019 per stages:

	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans to customers at the beginning of the period	**830 946 643**	**23 868 033**	**69 072 867**	**923 887 543**
New loans to customers originated	349 172 948	-	-	**349 172 948**
Transfer to stage 1	3 585 208	(3 515 235)	(69 973)	**-**
Transfer to stage 2	(23 639 211)	23 672 075	(32 864)	**-**
Transfer to stage 3	-	(9 893 761)	9 893 761	**-**
Loans to customers that have been derecognized	(384 145 340)	(14 797 519)	(2 513 453)	**(401 456 312)**
Assets sold or recovered through repossession of collateral during the period	(22 668 809)	-	(17 479 025)	**(40 147 834)**
Assets written-off during the period	-	-	(13 343 550)	**(13 343 550)**
Effect of exchange rate changes	(36 609 595)	(1 551 630)	(2 061 011)	**(40 222 236)**
Gross loans to customers at the end of the period	**716 641 844**	**17 781 963**	**43 466 752**	**777 890 559**

The tables below analyze information about the significant changes in the gross carrying amount of loans to customers during the period ended 31 December 2018 per stages:

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans to customers at the beginning of the period	**628 586 006**	**30 091 509**	**52 632 708**	**711 310 223**
New loans to customers originated	410 298 694	-	-	**410 298 694**
Transfer to stage 1	13 123 409	(13 032 448)	(90 961)	**-**
Transfer to stage 2	(46 828 698)	46 872 173	(43 475)	**-**
Transfer to stage 3	-	(30 032 638)	30 032 638	**-**
Loans to customers that have been derecognised	(224 914 065)	(13 458 942)	(6 735 472)	**(245 108 479)**
Assets sold or recovered through repossession of collateral during the period	(200 161)	-	(7 469 997)	**(7 670 158)**
Assets written-off during the period	-	-	(4 582 425)	**(4 582 425)**
Effect of exchange rate changes	50 881 458	3 428 379	5 329 851	**59 639 688**
Gross loans to customers at the end of the period	**830 946 643**	**23 868 033**	**69 072 867**	**923 887 543**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The following table shows gross loans and related impairment as at 31 December 2019:

	Gross loans	Impairment	Net loans
Corporate customers			
- Not past due	523 834 615	(11 477 258)	512 357 357
- Past due less than 31 days	847 477	(584 759)	262 718
- Past due 31-90 days	171 552	(154 397)	17 155
- Past due 91-180 days	261 381	(196 321)	65 060
- Past due over 180 days	17 985 701	(15 352 687)	2 633 014
Total loans to corporate customers	**543 100 726**	**(27 765 422)**	**515 335 304**
Retail customers			
- Not past due	180 884 419	(3 215 026)	177 669 393
- Past due less than 31 days	2 355 535	(604 378)	1 751 157
- Past due 31-90 days	1 622 593	(905 947)	716 646
- Past due 91-180 days	1 619 918	(1 192 095)	427 823
- Past due over 180 days	10 545 502	(9 455 018)	1 090 484
Total loans to retail customers	**197 027 967**	**(15 372 464)**	**181 655 503**
Lease receivables			
- Not past due	29 409 471	(548 642)	28 860 829
- Past due less than 31 days	269 800	(28 137)	241 663
- Past due 31-90 days	202 121	(67 630)	134 491
- Past due 91-180 days	67 578	(36 312)	31 266
- Past due over 180 days	76 515	(38 848)	37 667
Total lease receivables	**30 025 485**	**(719 569)**	**29 305 916**
Reverse repurchase agreements with companies			
- Not past due	7 736 381	(262 577)	7 473 804
Total loans to customers	**777 890 559**	**(44 120 032)**	**733 770 527**

The following table shows gross loans and related impairment as at 31 December 2018:

	Gross loans	Impairment	Net loans
Corporate customers			
- Not past due	674 097 437	(14 807 391)	659 290 046
- Past due less than 31 days	4 520 470	(2 631 577)	1 888 893
- Past due 31-90 days	311 446	(131 084)	180 362
- Past due 91-180 days	1 476 125	(958 438)	517 687
- Past due over 180 days	29 232 912	(25 932 322)	3 300 590
Total loans to corporate customers	**709 638 390**	**(44 460 812)**	**665 177 578**
Retail customers			
- Not past due	145 149 278	(3 055 244)	142 094 034
- Past due less than 31 days	2 695 416	(622 610)	2 072 806
- Past due 31-90 days	1 213 936	(623 961)	589 975
- Past due 91-180 days	971 688	(668 361)	303 327
- Past due over 180 days	11 827 912	(10 640 443)	1 187 469
Total loans to retail customers	**161 858 230**	**(15 610 619)**	**146 247 611**
Lease receivables			
- Not past due	23 824 529	(415 544)	23 408 985
- Past due less than 31 days	257 754	(40 664)	217 090
- Past due 31-90 days	111 220	(46 103)	65 117
- Past due 91-180 days	129 208	(111 288)	17 920
- Past due over 180 days	18 759	(15 066)	3 693
Total lease receivables	**24 341 470**	**(628 665)**	**23 712 805**
Reverse repurchase agreements with companies			
- Not past due	28 049 453	(36 742)	28 012 711
Total loans to customers	**923 887 543**	**(60 736 838)**	**863 150 705**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The following table shows gross loans to customers and related impairment distributed by stages according to IFRS 9 as at 31 December 2019:

	Stage 1	Stage 2	Stage 3	Total
Corporate customers				
Gross loans	504 771 208	8 189 728	30 139 790	543 100 726
Impairment	(3 829 002)	(865 321)	(23 071 099)	(27 765 422)
Net loans to corporate customers	**500 942 206**	**7 324 407**	**7 068 691**	**515 335 304**
Retail customers and SME				
Gross loans	174 985 264	9 415 957	12 626 746	197 027 967
Impairment	(1 920 216)	(2 410 285)	(11 041 963)	(15 372 464)
Net loans to retail customers and SME	**173 065 048**	**7 005 672**	**1 584 783**	**181 655 503**
Lease receivables				
Gross lease receivables	29 148 991	176 278	700 216	30 025 485
Impairment	(332 213)	(13 415)	(373 941)	(719 569)
Net lease receivables	**28 816 778**	**162 863**	**326 275**	**29 305 916**
Reverse repurchase agreements with companies				
Gross loans	7 736 381	-	-	7 736 381
Impairment	(262 577)	-	-	(262 577)
Net reverse repurchase agreements with companies	**7 473 804**	**-**	**-**	**7 473 804**
Total loans to customers	**710 297 836**	**14 492 942**	**8 979 749**	**733 770 527**

The following table shows gross loans to customers and related impairment distributed by stages according to IFRS 9 as at 31 December 2018:

	Stage 1	Stage 2	Stage 3	Total
Corporate customers				
Gross loans	639 423 638	14 632 827	55 581 925	709 638 390
Impairment	(5 108 557)	(838 205)	(38 514 050)	(44 460 812)
Net loans to corporate customers	**634 315 081**	**13 794 622**	**17 067 875**	**665 177 578**
Retail customers and SME				
Gross loans	139 894 394	8 993 502	12 970 334	161 858 230
Impairment	(2 119 372)	(1 997 015)	(11 494 232)	(15 610 619)
Net loans to retail customers and SME	**137 775 022**	**6 996 487**	**1 476 102**	**146 247 611**
Lease receivables				
Gross lease receivables	23 579 158	241 704	520 608	24 341 470
Impairment	(334 675)	(8 241)	(285 749)	(628 665)
Net lease receivables	**23 244 483**	**233 463**	**234 859**	**23 712 805**
Reverse repurchase agreements with companies				
Gross loans	28 049 453	-	-	28 049 453
Impairment	(36 742)	-	-	(36 742)
Net reverse repurchase agreements with companies	**28 012 711**	**-**	**-**	**28 012 711**
Total loans to customers	**823 347 297**	**21 024 572**	**18 778 836**	**863 150 705**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The following table provides analysis of minimum lease payments as at 31 December 2019:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	15 006 964	12 364 325
From 1 to 5 years	18 077 966	15 447 393
Over 5 years	1 688 344	1 494 198
	34 773 274	**29 305 916**
Less unearned finance income	(5 467 358)	-
Present value of minimum lease payments receivable (net investment in the lease)	**29 305 916**	**29 305 916**

The following table provides analysis of minimum lease payments as at 31 December 2018:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	12 719 710	10 365 058
From 1 to 5 years	14 308 071	11 881 202
Over 5 years	1 813 764	1 466 545
	28 841 545	**23 712 805**
Less unearned finance income	(5 128 740)	-
Present value of minimum lease payments receivable (net investment in the lease)	**23 712 805**	**23 712 805**

Impaired loans. Interest income on impaired loans for the year ended 31 December 2019 amounted to RUB 1 323 647 thousand (year ended 31 December 2018: RUB 727 273 thousand).

Renegotiated loans. As at 31 December 2019 and 31 December 2018 loans to customers included Stage 1 and 2 loans totaling RUB 1 880 601 thousand and RUB 17 119 252 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Write-off and sale of loans. The decision to write-off the loan is taken by the authorized body of the Group. Loans are written-off after receiving all necessary documentation from the authorized state bodies, as well as under the conditions where further debt collection is not possible.

The decisions to sell the loans is taken individually for each case, for both corporate and retail loans. The decision is taken by the authorized body of the Group based on the analysis of all possible alternative strategies for debt collection, the main criterion for the adoption of which is to minimize the losses of the Group's troubled assets.

Collateral. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines regarding the acceptability of types of collateral taking into account valuation parameters of borrower risk level are implemented.

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, securities;
- For commercial lending to corporate customers, pledge over real estate properties, equipment, inventories and trade receivables, guarantee of a legal entity with rating not lower than "BBB";
- For retail lending, mortgages over residential properties and motor vehicles;
- For lease receivables, pledge over real estate properties, motor vehicles and equipment.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing and regularly reassessed.

The following table summarizes the carrying value of loans, net of impairment, to corporate customers by types of collateral as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Loans to corporate customers		
Real estate	35 635 578	29 006 120
Guarantees	34 187 080	36 940 227
Other collateral	37 823	3 681 274
No collateral	445 474 823	595 549 957
Total loans to corporate customers	**515 335 304**	**665 177 578**

The following table summarizes the carrying value of loans, net of impairment, to retail customers by types of collateral as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Loans to retail customers		
Real estate	58 720 486	34 840 376
Motor vehicles	58 290 092	48 205 703
Other collateral	-	104 273
No collateral	64 644 925	63 097 259
Total loans to retail customers	**181 655 503**	**146 247 611**

The following table summarizes the carrying value of lease receivables, net of impairment, by types of collateral as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Lease receivables		
Real estate	466 972	485 714
Motor vehicles	7 817 996	7 375 232
Other collateral	21 020 948	15 851 859
Total lease receivables	**29 305 916**	**23 712 805**

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

When lending to legal entities belonging to one economic group, the Group normally also obtains guarantees from other group members.

(Thousands of Russian Roubles)

9. Loans to customers (continued)

Repossessed collateral. As at 31 December 2019 and 31 December 2018, the Group obtained certain assets by taking control of collateral obtained for derecognized loans to customers. As at 31 December 2019, the repossessed collateral is comprised of real estate, motor vehicles and other assets with carrying amount of RUB 441 925 thousand (31 December 2018: RUB 538 141 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Reverse repurchase agreements. As at 31 December 2019 and 31 December 2018 the Group entered into reverse repurchase agreements with a number of Russian companies. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2019 and 31 December 2018 comprise:

	31 December 2019		31 December 2018	
	Gross amount of loans	**Fair value of collateral**	**Gross amount of loans**	**Fair value of collateral**
Government bonds	221 864	246 980	15 567 594	16 291 947
Corporate bonds	6 952 893	7 766 442	12 481 859	13 880 054
Bank bonds	561 624	609 392	-	-
Total	**7 736 381**	**8 622 814**	**28 049 453**	**30 172 001**

As at 31 December 2019 included in bank bonds are securities in the amount of RUB 10 691 thousand (31 December 2018: none) which were repledged under repurchase agreements with customers (see Note 18 for details). The Group has the obligation to return these securities at the maturity of the related reverse repurchase agreements.

Concentration of loans to customers. As at 31 December 2019, the Group had RUB 166 589 729 thousand due from the ten largest borrowers (21% of gross loan portfolio) (31 December 2018: RUB 243 755 054 thousand or 27%). As at 31 December 2019, an allowance of RUB 280 329 thousand was recognised against these loans (31 December 2018: RUB 405 822 thousand).

As at 31 December 2019, the Group had three borrowers or a group of borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2018: ten borrowers or a group of borrowers). As at 31 December 2019, the aggregate amount of these loans is RUB 84 312 172 thousand (31 December 2018: RUB 262 552 497 thousand).

Loans to customers are made principally within Russia in the following industry sectors:

	31 December 2019	**31 December 2018**
Mining and metallurgy	116 070 824	196 296 861
Chemicals	97 052 009	92 865 163
Trade	76 425 130	101 344 131
Other manufacturing	47 430 313	52 114 124
Machinery construction	42 602 629	32 135 968
Real estate and construction	34 910 178	44 803 795
Energy	34 715 166	75 318 193
Agriculture and food	29 784 233	31 986 092
Telecommunications	27 111 589	21 828 067
Finance	24 932 186	49 665 293
Timber processing	21 828 192	35 063 393
Transportation	17 798 444	18 729 614
Other	13 185 202	13 269 482
Gross loans to corporate customers	583 846 095	765 420 176
Gross loans to individuals	194 044 464	158 467 367
Gross loans to customers	**777 890 559**	**923 887 543**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

Loans to individuals are divided by products as follows:

	31 December 2019	31 December 2018
Car loans	63 772 753	53 984 605
Consumer loans	61 225 334	52 796 913
Mortgages loans	61 232 934	42 557 794
Other loans	7 813 443	9 128 055
Gross loans to individuals	**194 044 464**	**158 467 367**

10. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise:

	31 December 2019	31 December 2018
Debt and other fixed income investments		
USD denominated		
Russian Government Eurobonds	-	20 403 064
RUB denominated		
Cental bank bonds	95 542 835	-
Russian Government Bonds	30 830 961	20 516 950
Corporate and bank bonds	12 508 221	6 152 651
Total debt and other fixed income investments measured at fair value through other comprehensive income	**138 882 017**	**47 072 665**
Equity investments		
RUB denominated		
Equity investments in financial institutions	116 945	116 945
EUR denominated		
Equity investments in financial institutions	6 747	6 747
Total equity investments measures at fair value through other comprehensive income	**123 692**	**123 692**
Total financial assets measures at fair value through other comprehensive income	**139 005 709**	**47 196 357**

As of 31 December 2019 and 31 December 2018 all debt securities classified as financial assets at fair value through other comprehensive income were allocated to Stage 1 in accordance with IFRS 9.

As at 31 December 2019 included in Russian Government bonds are securities sold under repurchase agreements in the amount of RUB 678 732 thousand (31 December 2018: Russian Government bonds in the amount of RUB 937 601 thousand) (see Notes 12 and 17 for details).

(Thousands of Russian Roubles)

10. Financial assets at fair value through other comprehensive income (continued)

Nominal interest rates and maturities of these securities are as follows:

	31 December 2019		31 December 2018	
	%	Maturity	%	Maturity
Central bank bonds	6.3	2020	-	-
Russian Government Bonds	7.1-8.2%	2027-2039	6.5-8.5%	2024-2034
Corporate and bank bonds	6.5-9.8%	2020-2050	6.75-9.25%	2019-2050
Russian Government Eurobonds	-	-	4.25-7.5%	2023-2047

As at 31 December 2019 approximately 18% of debt and other fixed income investments were rated not lower than "BBB-" (31 December 2018: 96%).

11. Investments in associate

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO "RN Bank" (Russian Federation) since 2013 (see Note 1). Total acquisition costs amounted to RUB 6 033 031 thousand, including increase in share capital amounted to RUB 1 209 598 thousand.

Information about associate of the Group as at reporting date is set out below:

Name	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest by the Group: 31 December 2019	Proportion of ownership interest by the Group: 31 December 2018
BARN B.V.	Holding company	Netherlands	40%	40%

The above associate is accounted for using the equity method.

The summarized financial information in respect of BARN B.V. as of 31 December 2019 and as of 31 December 2018 is set out below. The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRS.

	31 December 2019	31 December 2018
Total assets	107 191 578	92 344 461
Total liabilities	87 304 557	75 682 206
Equity	19 887 021	16 662 255
Net profit	3 157 636	2 814 156

The carrying amounts of the Group's interest in BARN B.V. as of 31 December 2019 and as of 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Net assets of BARN B.V.	19 887 021	16 662 255
Proportion of the Group's ownership interest in BARN B.V.	7 954 809	6 664 902
Goodwill	247 235	247 235
Carrying amount of the Group's interest in BARN B.V.	**8 202 044**	**6 912 137**

(Thousands of Russian Roubles)

11. Investments in associate (continued)

The reconciliation of the above financial information to the carrying amount of the interest in associate recognized in the consolidated financial statements is as follows:

Carrying amount of the Group's interest in BARN B.V. as at 1 March 2018 (unaudited)	**4 823 433**
Share of capital increase	1 209 598
Share of post-acquisition net profit of associate	954 589
Share of post-acquisition other comprehensive loss of associate	(75 483)
Carrying amount of the Group's interest in BARN B.V. as at 31 December 2018	**6 912 137**
Carrying amount of the Group's interest in BARN B.V. as at 1 January 2019	**6 912 137**
Share of post-acquisition net profit of associate	1 263 054
Share of post-acquisition other comprehensive income of associate	26 853
Carrying amount of the Group's interest in BARN B.V. as at 31 December 2019	**8 202 044**

12. Transfers of financial assets

The Group has transactions to sell securities classified as trading, financial assets at fair value through other comprehensive income under agreements to repurchase (see Notes 10, 17 for details).

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under repurchase agreements" in Note 10. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances due to credit institutions (see Note 17 for details).

These transactions are conducted under terms that are usual and customary to standard lending, as well as requirements determined by exchanges.

As at 31 December 2019 and 31 December 2018 the breakdown by portfolio of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2019		**31 December 2018**	
	Carrying amount of assets	**Carrying amount of associated liabilities**	**Carrying amount of assets**	**Carrying amount of associated liabilities**
Financial assets at fair value through other comprehensive income	678 732	615 053	937 601	869 379
Total	**678 732**	**615 053**	**937 601**	**869 379**

(Thousands of Russian Roubles)

12. Transfers of financial assets (continued)

As at 31 December 2019 and 31 December 2018 the breakdown by issuer of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2019		31 December 2018	
	Carrying amount of assets	**Carrying amount of associated liabilities**	**Carrying amount of assets**	**Carrying amount of associated liabilities**
Government bonds	678 732	615 053	937 601	869 379
Total	**678 732**	**615 053**	**937 601**	**869 379**

13. Fixed assets

The movements in fixed assets were as follows:

	Buildings	Computers and equipment	Other fixed assets	Right-of-use assets - Buildings	Total
Cost					
31 December 2018	**6 611 550**	**4 987 040**	**1 115 262**	**-**	**12 713 852**
Effect of change in accounting policy for application of IFRS 16 (Note 2)	-	-	-	2 062 507	**2 062 507**
Cost					
1 January 2019	**6 611 550**	**4 987 040**	**1 115 262**	**2 062 507**	**14 776 359**
Additions	-	1 047 941	189 110	-	**1 237 051**
Disposals	(207 420)	(202 062)	(354 191)	-	**(763 673)**
Revaluation (Note 2)	37 080 595	-	-	-	**37 080 595**
31 December 2019	**43 484 725**	**5 832 919**	**950 181**	**2 062 507**	**52 330 332**
Accumulated depreciation					
1 January 2019	**(2 627 109)**	**(4 121 938)**	**(514 801)**	-	**(7 263 848)**
Depreciation charge	(87 473)	(591 746)	(39 465)	(653 030)	**(1 371 714)**
Impaiment	(3 854)	-	(23 085)	-	**(26 939)**
Disposals	103 586	264 754	33 916	-	**402 256**
Revaluation (Note 2)	(31 711 922)	-	-	-	**(31 711 922)**
31 December 2019	**(34 326 772)**	**(4 448 930)**	**(543 435)**	**(653 030)**	**(39 972 167)**
Net book value					
As at 31 December 2019	**9 157 953**	**1 383 989**	**406 746**	**1 409 477**	**12 358 165**

(Thousands of Russian Roubles)

13. Fixed assets (continued)

As of 31 December 2019 buildings valued at fair value are categorised into Level 3 fair value hierarchy.

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2018	**6 577 320**	**4 674 821**	**985 590**	**12 237 731**
Additions	34 230	698 247	384 926	1 117 403
Disposals	-	(386 028)	(255 254)	(641 282)
31 December 2018	**6 611 550**	**4 987 040**	**1 115 262**	**12 713 852**
Accumulated depreciation				
1 January 2018	**(2 357 932)**	**(4 039 101)**	**(478 060)**	**(6 875 093)**
Depreciation charge	(228 332)	(468 526)	(36 465)	(733 323)
Impaiment	(40 845)	-	(31 588)	(72 433)
Disposals	-	385 689	31 312	417 001
31 December 2018	**(2 627 109)**	**(4 121 938)**	**(514 801)**	**(7 263 848)**
Net book value				
As at 31 December 2018	**3 984 441**	**865 102**	**600 461**	**5 450 004**

14. Intangible assets

The movements in intangible assets were as follows:

	2019	2018
Cost		
1 January	**14 413 931**	**12 981 728**
Additions	3 019 495	1 675 859
Disposals	(76 561)	(243 656)
31 December	**17 356 865**	**14 413 931**
Accumulated amortisation		
1 January	**(7 082 148)**	**(5 528 924)**
Amortisation charge	(1 756 464)	(1 554 452)
Disposals	20 270	1 228
31 December	**(8 818 342)**	**(7 082 148)**
Net book value		
As at 31 December	**8 538 523**	**7 331 783**

(Thousands of Russian Roubles)

15. Taxation

The corporate income tax expense comprises:

	2019	2018
Current tax charge	5 095 553	6 930 442
Deferred tax charge – reversal of temporary differences	(737 628)	(2 773 518)
Income tax expense	**4 357 925**	**4 156 924**

Russian legal entities must file individual tax declarations. The tax rate for banks and companies for profits other than on state securities was 20% for 2019 and 2018. The tax rate for interest income on state securities was 15% for 2019 and 2018.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2019	2018
Profit before tax	**22 058 990**	**20 860 992**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**4 411 798**	**4 172 198**
Effect of income taxed at lower tax rates	(445 868)	(326 883)
Non-deductible costs	391 995	311 609
Income tax expense	**4 357 925**	**4 156 924**

Deferred tax assets and liabilities as at 31 December 2019 and 31 December 2018 comprise:

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Fixed and intangible assets	8 567 449	1 756 244	(11 620 323)	(3 246 456)	**(3 052 874)**	**(1 490 212)**
Debt securities held for trading and derivatives	577 567	3 079 963	-	(1 894 877)	**577 567**	**1 185 086**
Financial assets at fair value through other comprehensive income	10 390	538 278	(504 772)	(15 148)	**(494 382)**	**523 130**
Loan impairment and credit related commitments	2 645 189	2 952 689	(2 467 802)	(3 073 720)	**177 387**	**(121 031)**
Other items	3 401 648	2 627 415	-	(887 740)	**3 401 648**	**1 739 675**
Total deferred tax assets/(liabilities)	**15 202 243**	**10 954 589**	**(14 592 897)**	**(9 117 941)**	**609 346**	**1 836 648**

Movement in deferred tax assets and liabilities during the year ended 31 December 2019 is presented in the table below:

	1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2019
Fixed and intangible assets	(1 490 212)	(488 927)	(1 073 735)	(3 052 874)
Debt securities held for trading and derivatives	1 185 086	(733 836)	126 317	577 567
Financial assets at fair value through other comprehensive income	523 130	-	(1 017 512)	(494 382)
Loan impairment and credit related commitments	(121 031)	298 418	-	177 387
Other items	1 739 675	1 661 973	-	3 401 648
	1 836 648	**737 628**	**(1 964 930)**	**609 346**

(Thousands of Russian Roubles)

15. Taxation (continued)

Movement in deferred tax assets and liabilities during the year ended 31 December 2018 is presented in the table below:

	1 January 2018	Effect of change in accounting policy for application of IFRS 9	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2018
Fixed and intangible assets	(1 408 648)	-	(81 564)	-	(1 490 212)
Debt securities held for trading and derivatives	(2 414 277)	-	3 697 462	(98 099)	1 185 086
Financial assets at fair value through other comprehensive income	(471 239)	(241 458)	383 588	852 239	523 130
Loan impairment and credit related commitments	(1 498 809)	3 048 125	(1 670 347)	-	(121 031)
Other items	1 295 296	-	444 379	-	1 739 675
	(4 497 677)	**2 806 667**	**2 773 518**	**754 140**	**1 836 648**

Tax effect relating to components of other comprehensive income comprises:

	2019			2018		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	(654 937)	126 317	(528 620)	513 848	(98 099)	415 749
Revaluation reserve for financial assets at fair value through other comprehensive income	5 110 757	(1 017 512)	4 093 245	(4 261 194)	852 239	(3 408 955)
Foreign currency translation reserve	27 005	-	27 005	(98 835)	-	(98 835)
Revaluation reserve for fixed assets	5 368 673	(1 073 735)	4 294 938	-	-	-
Other comprehensive income	**9 851 498**	**(1 964 930)**	**7 886 568**	**(3 846 181)**	**754 140**	**(3 092 041)**

16. Other assets and liabilities

Other assets comprise:

	31 December 2019	31 December 2018
Advances, prepayments and deferred expenses	5 796 001	4 934 120
Transit accounts	4 918 808	345 334
VAT receivables on leases	821 269	416 387
Accrued income other than income capitalised in related financial assets	470 013	841 400
Other	1 455 797	1 287 966
Other assets	**13 461 888**	**7 825 207**

Other liabilities comprise:

	31 December 2019	31 December 2018
Accrued compensation expense	4 030 571	3 923 670
Provision for off-balance	3 873 160	3 532 376
Accrued expenses and deferred income	2 878 814	1 004 746
Accounts payable	1 775 850	2 495 992
Transit accounts	482 337	1 180 261
Taxes payables	444 062	391 629
Other provisions	226 036	470 337
Other	1 285 908	2 406 169
Other liabilities	**14 996 738**	**15 405 180**

(Thousands of Russian Roubles)

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2019	31 December 2018
Current accounts	7 316 851	9 328 075
Time deposits and loans	58 494 241	44 255 468
Repurchase agreements with credit institutions (Note 12)	917 972	869 379
Subordinated debt (Note 20)	29 780 408	33 517 157
Amounts due to credit institutions	**96 509 472**	**87 970 079**

As at 31 December 2019, the ten largest deposits, excluding subordinated debt, represented 83% of total amounts due to credit institutions (31 December 2018: 77%).

As at 31 December 2019, the Group has one counterparty with aggregate balances that individually exceeded 10% of equity (31 December 2018: none).

As at 31 December 2019 fair value of securities pledged under repurchase agreements with credit institutions is RUB 678 732 thousand (31 December 2018: RUB 937 601 thousand) (see Notes 10, 12 and 28 for details).

As at 31 December 2019 included in repurchase agreements with credit institutions are agreements in the amount of RUB 302 919 thousand (31 December 2018: none) which are secured by Russian government bonds with fair value of RUB 336 421 thousand obtained under reverse repurchase agreements with credit institutions (see Note 7 for details).

18. Amounts due to customers

The amounts due to customers include the following:

	31 December 2019	31 December 2018
Current accounts	215 990 365	207 011 786
Time deposits	644 239 121	808 629 082
Repurchase agreements with customers	9 857	-
Lease liabilities under IFRS 16	1 387 304	-
Amounts due to customers	**861 626 647**	**1 015 640 868**

As at 31 December 2019, approximately 34% of total amounts due to customers was placed with the Group by its ten largest customers (31 December 2018: 45%).

Analysis of customer accounts by type of customers is as follows:

	31 December 2019	31 December 2018
Corporate		
Current accounts	84 173 774	79 068 909
Time deposits	454 966 587	636 922 591
Repurchase agreements with customers	9 857	-
Total corporate accounts	**539 150 218**	**715 991 500**
Retail		
Current accounts	131 816 591	127 942 877
Time deposits	189 272 534	171 706 491
Total retail accounts	**321 089 125**	**299 649 368**
Lease liabilities under IFRS 16	**1 387 304**	**-**
Amounts due to customers	**861 626 647**	**1 015 640 868**

(Thousands of Russian Roubles)

18. Amounts due to customers (continued)

Included in retail time deposits are deposits of individuals in the amount of RUB 167 534 866 thousand (31 December 2018: RUB 151 315 470 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 21 737 668 thousand (31 December 2018: RUB 20 391 021 thousand) is represented by deposits placed by SME.

As at 31 December 2019 repurchase agreements with customers in the amount of RUB 9 857 thousand (31 December 2018: none) are secured by bank bonds with fair value of RUB 10 691 thousand obtained under reverse repurchase agreements with customers (see Note 9 for details).

The analisys by the economic sector is presented in the table below:

	31 December 2019	**31 December 2018**
Energy	148 400 758	339 647 424
Trade	102 627 855	95 695 275
Machinery construction	58 589 867	31 421 065
Russian regional authorities	49 322 772	62 648 463
Mining and metallurgy	45 832 153	58 796 169
Real estate and construction	38 968 514	30 643 246
Telecommunications	30 858 971	17 163 945
Other manufacturing	26 920 194	26 968 633
Chemicals	19 316 315	15 344 029
Transportation	16 989 716	19 965 191
Finance	15 753 466	26 733 062
Agriculture and food	3 975 246	5 718 454
Timber processing	3 361 377	5 656 917
Other	38 059 089	37 333 873
Corporate customers	598 976 293	773 735 746
Individuals	261 263 050	241 905 122
Customers	**860 239 343**	**1 015 640 868**

19. Debt securities issued

Debt securities issued consisted of the following bonds:

Issue	**Date of issue**	**Maturity date**	**Currency**	**Coupon rate, %**	**Carrying value at 31 December 2019**	**Carrying value at 31 December 2018**
UniCredit Bank, BO-22	12.08.2014	06.08.2019	RUB	9.00	-	46 732
UniCredit Bank, BO-21	23.05.2014	17.05.2019	RUB	9.00	-	818
UniCredit Bank, BO-11	26.11.2014	20.11.2019	RUB	9.10	-	3
Debt securities issued					-	**47 553**

(Thousands of Russian Roubles)

20. Subordinated debt

	31 December 2019	31 December 2018
UniCredit S.p.A		
USD 480 900 thousand, quarterly interest payment, maturing March 2025	29 780 408	33 517 157
Subordinated Debt	**29 780 408**	**33 517 157**

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

21. Shareholder's equity

As at 31 December 2019 and 31 December 2018, the authorised, issued and paid share capital comprises 2 404 181 ordinary shares with a par value of RUB 16 820 each.

In 2019 the Group declared and paid dividends of RUB 3 378 per share on ordinary shares in the total amount of RUB 8 121 322 thousand (2018: RUB 6 861 533 thousand).

22. Commitments and contingencies

Credit related commitments and contingencies comprise:

	31 December 2019	31 December 2018
Undrawn loan commitments	376 971 129	323 047 380
Undrawn guarantees and letters of credit commitments	241 762 866	314 753 124
Guarantees issued	151 284 851	146 447 347
Letters of credit	51 852 069	58 185 712
Gross credit related commitments and contingencies	**821 870 915**	**842 433 563**
Provision for credit related commitments and contingencies	(3 873 160)	(3 532 376)
Net credit related commitments and contingencies	**817 997 755**	**838 901 187**

A reconciliation of provision for credit losses on financial guarantees and other committed and uncommitted credit related commitments and contingencies in accordance with IFRS 9 for the year ended 31 December 2019 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance as at the beginning of the period	**3 102 125**	**121 818**	**41 023**	**3 264 966**
(Recovery)/charge for the period	(901 398)	(10 968)	140 678	(771 688)
Balance as at the end of the period	**2 200 727**	**110 850**	**181 701**	**2 493 278**

(Thousands of Russian Roubles)

22. Commitments and contingencies (continued)

A reconciliation of provision for credit losses on financial guarantees and other committed and uncommitted credit related commitments and contingencies in accordance with IFRS 9 for the year ended 31 December 2018 is as follows:

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	**-**	**-**	**-**	**-**
Effect of change in accounting policy due to IFRS 9 adoption	3 614 982	515 157	285 005	4 415 144
At 1 January 2018 according to IFRS 9	**3 614 982**	**515 157**	**285 005**	**4 415 144**
Recovery for the period	(512 857)	(393 339)	(243 982)	(1 150 178)
At 31 December 2018	**3 102 125**	**121 818**	**41 023**	**3 264 966**

A reconciliation of the provisions on credit related commitments in accordance with IAS 37 is as follows:

	31 December 2019	31 December 2018
Provisions at the beginning of the period	**267 410**	**1 458 050**
Charge/(recovery) for the period	1 112 472	(1 190 640)
Provisions at the end of the period	**1 379 882**	**267 410**

The following table shows gross financial guarantees and other committed and uncommitted credit related commitments and contingencies and related expected loss under IFRS 9 by stages as of 31 December 2019:

	Stage 1	Stage 2	Stage 3	Total
Gross credit related commitments and contingencies	707 625 098	12 434 829	316 126	**720 376 053**
Provisions for credit related commitments and contingencies	(2 200 727)	(110 850)	(181 701)	**(2 493 278)**
Net credit related commitments and contingencies	**705 424 371**	**12 323 979**	**134 425**	**717 882 775**

The following table shows gross credit related commitments and related impairment under IAS 37 as of 31 December 2019:

	Performing exposure	Impaired exposure	Total
Gross credit related commitments and contingencies	100 571 088	923 774	**101 494 862**
Provisions for credit related commitments and contingencies	(608 514)	(771 368)	**(1 379 882)**
Net credit related commitments and contingencies	**99 962 574**	**152 406**	**100 114 980**

(Thousands of Russian Roubles)

22. Commitments and contingencies (continued)

The following table shows gross financial guarantees and other committed and uncommitted credit related commitments and contingencies and related expected loss under IFRS 9 by stages as of 31 December 2018:

	Stage 1	Stage 2	Stage 3	Total
Gross credit related commitments and contingencies	715 583 026	34 351 805	57 073	**749 991 904**
Provisions for credit related commitments and contingencies	(3 102 125)	(121 818)	(41 023)	**(3 264 966)**
Net credit related commitments and contingencies	**712 480 901**	**34 229 987**	**16 050**	**746 726 938**

The following table shows gross credit related commitments and related impairment under IAS 37 as of 31 December 2018:

	Performing exposure	Impaired exposure	Total
Gross credit related commitments and contingencies	91 160 605	1 281 054	**92 441 659**
Provisions for credit related commitments and contingencies	-	(267 410)	**(267 410)**
Net credit related commitments and contingencies	**91 160 605**	**1 013 644**	**92 174 249**

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans issued. With respect to the documentary instruments shown above, as at 31 December 2019, collateral deposits of RUB 6 007 311 thousand were held by the Group (31 December 2018: RUB 17 290 901 thousand).

Operating environment. The Russian Federation displays certain characteristics of an emerging market. Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation may change frequently and are subject to arbitrary interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Given that Russia produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the prices of oil and gas on the world market. Following high volatility in natural resources prices, the ruble exchange rate and interest rates in 2018 and 2019 have been relatively stable. The Russian economy continued to be negatively impacted by ongoing political tension in the region and continuing international sanctions imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

There has continued to be increased economic challenges to the Russian consumers and corporates, which have led to higher defaults in the retail and commercial banking sector. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could significantly differ from actual results.

(Thousands of Russian Roubles)

22. Commitments and contingencies (continued)

Taxation. Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. As of the reporting date, the tax authorities completed the Bank's tax inspection regarding the correct calculation and timely payment of taxes and fees for the years 2015-2016, the Bank has not yet received an act on the results of this tax inspection. Management is not aware of any fines and charges related to this tax inspection. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2019, amendments were introduced to the Tax Code of the Russian Federation and certain other legislative acts, which provides, among other things, an increase in the general rate of Value Added Tax (VAT) from 18% to 20%. The new rates apply to goods, work, services, and property rights supplied starting from 1 January 2019. As the banking operations are exempted from VAT the management does not expect any significant effect of these changes on the consolidated financial statements of the Group, except for corresponding increase of the cost of goods and services purchased.

Fiduciary activities*.* The Group also provides depositary services to its customers. As at 31 December 2019 and 31 December 2018, the Group had customer securities totaling 38 574 427 402 items and 36 942 398 341 items, respectively, in its nominal holder accounts.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. As at 31 December 2019 the provision for legal proceedings in the amount of RUB 226 036 thousand (31 December 2018: RUB 470 337 thousand) was recognized in other liabilities in the consolidated statement of financial position.

23. Losses on financial assets and liabilities held for trading

(Losses)/gains on financial assets and liabilities held for trading comprise:

	2019	**2018**
Net gains/(losses) from debt securities held for trading	50 018	(1 489 460)
Net losses from foreign exchange, interest based derivatives and translation of other foreign currency assets and liabilities	(1 261 414)	(1 202 105)
Losses on financial assets and liabilities held for trading	**(1 211 396)**	**(2 691 565)**

24. Fee and commission income and expense

Fee and commission income comprises:

	2019	**2018**
Agent insurance fee	4 090 566	3 722 675
Retail services	3 136 489	3 001 499
Customer accounts handling and settlements	2 487 770	2 618 699
Documentary business	2 083 762	2 316 387
Other	10 593	13 127
Fee and commission income	**11 809 180**	**11 672 387**

(Thousands of Russian Roubles)

24. Fee and commission income and expense (continued)

Fee and commission expense comprises:

	2019	2018
Retail services	(1 293 008)	(1 218 835)
Accounts handling and settlements	(1 249 155)	(1 249 745)
Documentary business	(114 511)	(326 908)
Other	(196 010)	(142 622)
Fee and commission expense	**(2 852 684)**	**(2 938 110)**

25. Personnel and other administrative expenses

Personnel and other administrative expenses comprise:

	2019	2018
Salaries and bonuses	7 666 330	7 121 938
Social security costs	470 210	443 764
Other compensation expenses	204 640	180 945
Other employment taxes	1 896 575	1 681 932
Personnel expenses	**10 237 755**	**9 428 579**
Communication and information services	2 782 792	2 486 603
Deposit insurance	1 704 926	1 336 187
Rent, repairs and maintenance	582 453	1 307 438
Security expenses	348 977	385 422
Advertising and marketing	212 112	512 772
Other taxes	143 495	150 574
Legal, audit and other professional services	143 885	141 416
Other	656 022	689 776
Other administrative expenses	**6 574 662**	**7 010 188**

26. Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, principles and approaches established by Basel II and Basel III, Regulation and Directive of the European Parliament and the Council (CRD IV), the CBR regulation.

The primary objectives of capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

Capital and capital adequacy ratio under the CBR requirements. The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian banking legislation and regulation of the CBR.

Capital (own funds) under the requirements of the CBR regulation No. 646-P "Calculation of own funds (Basel III) by credit institutions" as at 31 December 2019 and 31 December 2018 was as follows:

	31 December 2019	31 December 2018
Core equity Tier I capital	182 670 441	175 108 291
Tier I capital	182 670 441	175 108 291
Additional capital	38 348 034	41 573 433
Total capital	**221 018 475**	**216 681 724**

(Thousands of Russian Roubles)

26. Capital management (continued)

Core equity Tier I and Tier I comprise share capital, share premium, reserve fund and retained earnings including current year profit. Additional capital includes subordinated debt, current year profit not included in the main capital and revaluation reserves.

The capital adequacy ratios, computed in accordance with the CBR Regulation No. 180-I "Obligatory banking ratios", as at 31 December 2019 and 31 December 2018 were as follows:

	31 December 2019	31 December 2018
Total capital adequacy ratio H1.0 (minimum 8%)	18,0%	16.1%
Core equity Tier I capital adequacy ratio H1.1 (minimum 4.5%)	15,0%	13.1%
Tier 1 capital adequacy ratio H1.2 (minimum 6%)	15,0%	13.1%

Capital and capital adequacy ratio under Basel III and Basel II requirements (unaudited). Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Group internal policies.

Starting from 2017, the Group calculates risk weighted assets in accordance with the requirements of CRD IV. Subordinated loans, received by the Group might be considered as loss absorbtion capacity of the Bank and as a result can be included in Tier II capital.

The capital and capital adequacy ratios computed in accordance with the Basel II and Basel III requirements as at 31 December 2019 and 31 December 2018 were as follows (unaudited):

	31 December 2019	31 December 2018
Core equity Tier 1 capital	188 977 354	173 649 762
Tier II capital	31 186 341	35 179 280
Total capital	**220 163 695**	**208 829 042**
Risk weighted assets	**1 100 992 675**	**1 106 293 154**
Core equity Tier 1 capital ratio	17.2%	15.7%
Total capital ratio	20.0%	18.9%

27. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market (including foreign exchange), liquidity and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimize potential adverse effect on the Group's financial performance.

Risk management structure*.* The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

27. Risk management (continued)

The Supervisory Board has the overall responsibility for the oversight of the risk management framework, supervising the management of key risks. It also approves internal documentation for strategic areas of activity, including those concerning management of capital and risk.

The Board of Management has the overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is a Member of the Board of Management.

The most important risk quantification systems are subject to internal validation by the dedicated independent function within Chief Risk Officer area.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as the Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of Credit Approval Authorities, which includes four credit committees, including Credit Committee, Small Credit Committee, Special Credit Committee and Retail Business Credit Committee as well as several levels of joint and single personal approval authority, depending on the amount of exposure, risk type and risk associated with a customer (internal ratings).

The main objective of the risk-committee is to analyze and discuss the current risk profile, its compliance with risk appetite and risk strategy approved by the Supervisory Board, also for making operational decisions aimed at achieving the targets set for the risk profile, as well as other issues of risk management quality improvement in the Bank within the framework defined by special rules and procedures.

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals and to Small and Medium Enterprises (hereinafter – "SME") are in line with UniCredit Group Credit Policies, agreed with the CRO and approved by the Board of Management/Supervisory Board according to the current Rules of development, agreement and approval of internal documents of the Bank.

The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in the lending process to individuals decision-making is done by the Operations Function, to which the CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. For standardized products in the lending process to SMEs decision-making is done by the Business Function, to which the CRO Function delegates authority through respective guidelines, rules and decision matrix for applications. All deviations/exceptions from standardized products have to be approved by the CRO.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk. Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other credit exposures.

For risk management purposes, credit risk arising from positions in debt securities held for trading is managed and reported on a daily basis.

27. Risk management (continued)

Credit risk governance. Credit risk management policies, procedures and manuals are approved by the Board of Management/Supervisory Board according to the current Policy and Procedure of Group rules implementation at the Bank.

The following credit committees are responsible for approving corporate and retail credit risk exposures:

- The Credit Committee reviews and approves all loan/credit applications from customers and issuers above RUB 750 million or equivalent in other currencies depending on the rating of the borrower. It is chaired by the Chairman of the Board of Management or the CRO and meets on a weekly basis.
- The Small Credit Committee reviews and approves all loan/credit applications from corporate customers in the amount up to RUB 2 billion or equivalent in other currencies depending on the rating of the borrower. It is chaired by the Head of Credit Underwriting Department or Deputy Head/ Senior Manager of Credit Underwriting Department and meets on a weekly basis.
- The Retail Business Credit Committee is responsible for making decisions on loan applications of SME in the amount up to 73 million RUB (inclusive) and also for making decisions on loan applications of Private Individual clients in the amount up to 100 million RUB (inclusive) or equivalent in other currencies. The Retail Business Credit Committee meets in regular full-time sessions that are held in cases of necessity, but not less than twice a month in working order.
- The Special Credit Committee for Troubled Assets and Credit Restructuring takes decisions on issues related to work with problematic assets and restructuring of loans within the limits of delegated authority.

All corporate credit applications are considered by collegial bodies (credit committees) except for low risk products (covered guarantees) and products with low limits (up to RUB 100 mln.) for which there is a system of personal credit approval authorities.

There is also a system of personal credit approval authorities with the four-eyes principle in place. For SME and private individuals lending process proposal is done by business function and approval is done by competent authority body according to decision matrix for applications. In the process of analyzing private undividuals, the Bank uses various procedures, including an integrated approach to the assessment of the borrower. This approach establishes rules and checks, including those conducted automatically on the basis of internal and external information, including the assessment of client scoring. The analysis also takes into account the result of scoring obtained by the borrower from the National Credit Bureau.

All credit exposures above EUR 50 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 25 million have to be approved by authorized bodies of UniCredit Group.

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:

- Procedures and standards for approval and review of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The relevant relationship managers and Corporate Lending Department or Financing Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager.

27. Risk management (continued)

The credit applications consist of a structured complex analysis focusing on the customer's business, financial performance and risks. The loan/credit applications are then independently reviewed by the Credit Underwriting Department and a second opinion in respect of risks is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting Department. This business model allows the Group to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Group's operations. This allows the Group to manage its credit portfolio both on industry and regional levels.

Credit portfolio diversification by client types (large corporate clients, SME, individual clients) and industries allows to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Group uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review procedures.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. As the result of the review, the borrower's internal credit rating may be changed. The Group monitors concentrations of credit risk by industry/sector and by the exposure to top borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals and SME. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Group's credit transactions a Monitoring Unit was established which implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

Property risk. Due to the nature of leasing activity, in case of default events, the Group is exposed to property risk which is the risk that it will be impossible to sell property repossessed from defaulted clients or selling price won't cover credit exposure of the client.

The Group minimizes this risk by analyzing the leasing objects as well as lessees before entering into a leasing transaction, in case of increased risk additional collateral is demanded, other measures to handle credit risk are also used.

Settlement risk. The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

(Thousands of Russian Roubles)

27. Risk management (continued)

	Notes	Maximum gross exposure as at 31 December 2019	Maximum gross exposure as at 31 December 2018
Cash and cash balances (excluding cash on hand)	5	13 295 444	3 447 490
Debt securities held for trading:	6		
- held by the Group		-	5 309 437
Derivative financial assets	8	23 884 409	36 868 281
Derivative financial assets designated for hedging	8	9 873 372	6 788 150
Financial assets at amortized cost			
- Amounts due from credit institutions	7	245 812 527	359 588 990
- Loans to customers	9	733 770 527	863 150 705
Financial assets at fair value through other comprehensive income	10		
- held by the Group		138 203 285	46 135 064
- pledged under repurchase agreements		678 732	937 601
Total		**1 165 518 296**	**1 322 225 718**
Financial commitments and contingencies	22	817 997 755	838 901 187
Total credit risk exposure		**1 983 516 051**	**2 161 126 905**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2019.

	Notes	Neither past due nor impaired		Past due or impaired	Total
		High grade	Standard		
Cash and cash balances (excluding cash on hand)	5	13 295 444	-	-	**13 295 444**
Derivative financial assets	8	21 158 410	2 725 999	-	**23 884 409**
Derivative financial assets designated for hedging	8	9 873 372	-	-	**9 873 372**
Financial assets at amortized cost					
- Amounts due from credit institutions	7	230 329 058	15 483 469	-	**245 812 527**
- Loans to customers	9	334 039 999	387 898 684	11 831 844	**733 770 527**
Financial assets at fair value through other comprehensive income	10				
- held by the Group		136 868 217	1 335 068	-	**138 203 285**
- pledged under repurchase agreement		678 732	-	-	**678 732**
Total		**746 243 232**	**407 443 220**	**11 831 844**	**1 165 518 296**

(Thousands of Russian Roubles)

27. Risk management (continued)

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2018.

	Notes	Neither past due nor impaired High grade	 Standard	Past due or impaired	Total
Cash and cash balances (excluding cash on hand)	5	3 447 490	-	-	**3 447 490**
Debt securities held for trading:	6				
- held by the Group		5 309 437	-	-	**5 309 437**
Derivative financial assets	8	34 083 660	2 784 621	-	**36 868 281**
Derivative financial assets designated for hedging	8	6 719 682	68 468	-	**6 788 150**
Financial assets at amortized cost					
- Amounts due from credit institutions	7	335 610 096	23 978 894	-	**359 588 990**
- Loans to customers	9	460 209 582	380 442 209	22 498 914	**863 150 705**
Financial assets at fair value through other comprehensive income	10				
- held by the Group		44 823 742	1 311 322	-	**46 135 064**
- pledged under repurchase agreement		937 601	-	-	**937 601**
Total		**891 141 290**	**408 585 514**	**22 498 914**	**1 322 225 718**

The Standard grade category includes exposures with probability of default from 0.5% to 99%. The High grade category includes exposures with probability of default up to 0.5% (so-called "Investment grade" in accordance with the UniCredit Group methodology).

As at 31 December 2019, 37% of exposures included in the tables above are rated as AAA/AA/A/BBB/BB/B by external rating agencies (Moody's, S&P, Fitch) (31 December 2018: 48%). As at 31 December 2019, 63% of the exposures (31 December 2018: 52%) are not rated due to the fact that small entities and private inidviduals are not externally rated.

Geographical concentration*.* Asset and Liability Management Committee exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

As at 31 December 2019 and 31 December 2018 assets and liabilities of the Group are concentrated mainly in the Russian Federation except for the amounts due from credit institutions and derivative financial assets and liabilities (including those designated for hedging) which are mainly concentrated in OECD countries.

Liquidity risk and funding management. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – "ALCO") is responsible for management of liquidity risk. ALCO delegates to the Finance Department and Markets Department the responsibility to monitor and maintain the liquidity profile within limits on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limit breaches. Both Finance Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

27. Risk management (continued)

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on the annual budget data. On a monthly basis, the funding plan is updated taking into account the current recognized and unrecognized positions, changes in the asset and liability mismatches of the Group, available funding sources and market analysis. The Group has adopted contingency funding plans, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval. In addition to Contingency funding plans UniCredit Group develops Recovery and Resolution Plan which covers extreme stress scenario management.
2. Structural liquidity is analyzed by Finance Department and Market Risk Unit using Net Stable Funding Ratio (hereinafter – "NSFR") and NSFR-based liquidity gap approach and reported to local ALCO and to the UniCredit Group on weekly basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.
3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies according to UniCredit Group approach and local approach. Differences in the two approaches are explained by necessity to control liquidity taking into account the Group's strategy and features of the local market environment.
    - Regulatory approach for liquidity monitoring based on Liquidity Coverage Ratio is applied in the Bank following UniCredit Group and the CBR requirements.
    - Stress scenarios (combined – including market crisis, foreign exchange market crisis scenario, etc.) are assessed to stress forecast future cash flows and corresponding liquidity needs. Market crisis scenario includes "haircuts" to liquid security positions, failure of the Group's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. In attempt to reveal possible weaknesses reverse stress testing applied with further development of recovery plan.
    - UniCredit Group sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline). Additionally local ALCO sets limits on liquidity gaps in accordance with local approach to cash flow model.
    - Liquidity control framework is not limited to strict metrics but includes liquidity early warning indicators, which allows ALCO to switch between going-concern and crisis phases.
4. Funding structure concentration is monitored and managed on a constant basis:
    - UniCredit Group sets separate triggers for:
        - Structural funding concentration by time bucket;
        - Overall funding concentration level by counterparties;
        - Total amount for specific products;
        - Total amount of structural funding in material foreign currencies;
    - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
    - Reports on customer funds concentration are presented to the management and analyzed on a weekly basis.

(Thousands of Russian Roubles)

27. Risk management (continued)

5. Liquidity ratios in line with regulatory requirements established by the CBR are to be monitored and met:
   - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
   - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
   - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year;
   - Liquidity coverage ratio (N26) is the ratio of high quality liquid assets and net short-term outflow. Calculated in compliance with actual CBR regulations, it implements "Basel III" standards;
   - Net stable funding ratio (N28) is ratio of stable funding and required stable funding. Calculated in compliance with actual CBR regulations, it implements "Basel III" standards.

Finance Department performs daily N26 and N28 estimation and makes a forecast of N4 ratio for a one month horizon on a daily basis. Markets Department projects N2, N3 ratios for a one month horizon. Accounting is responsible for independent final reporting of regulatory ratios.

As at 31 December 2019 and 31 December 2018, these ratios were as follows:

	2019,%	**2018,%**
N2 "Instant liquidity Ratio" (minimum 15%)	196.4	191.1
N3 "Current Liquidity Ratio" (minimum 50%)	306.6	221.7
N4 "Long-Term Liquidity Ratio" (maximum 120%)	44.3	52.4
N26 ""Liquidity Coverage Ratio"(minimum 90%)	160.7	100
N28 "Net Stable Funding Ratio" (minimum 100%)	127.9	126.3

(Thousands of Russian Roubles)

27. Risk management (continued)

The table below presents the liquidity gap profile as at 31 December 2019:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	24 268 658	-	-	-	-	-	-	**24 268 658**
Derivative financial assets	2 667 388	991 297	1 844 627	739 790	5 922 195	11 719 112	-	**23 884 409**
Derivative financial assets designated for hedging	16 781	2 213	132 636	1 252 153	5 491 986	2 977 603	-	**9 873 372**
Financial assets at amortised costs with banks	220 119 644	6 919 968	5 221 764	6 235 350	7 228 790	87 011	-	**245 812 527**
Financial assets at amortised costs with customers	42 141 679	46 858 717	45 099 973	93 375 693	203 701 891	302 592 574	-	**733 770 527**
Debt securities FVTOCI	3 040 920	92 726 646	-	-	1 746 233	41 368 218	123 692	**139 005 709**
Other financial assets	-	-	-	-	-	-	25 946 712	**25 946 712**
Total financial assets	**292 255 070**	**147 498 841**	**52 299 000**	**101 602 986**	**224 091 095**	**358 744 518**	**26 070 404**	**1 202 561 914**
Liabilities								
Amounts due to credit institutions	54 766 917	5 987 069	934 149	2 104 304	1 419 330	31 297 703	-	**96 509 472**
Derivative financial liabilities	1 305 797	1 932 396	445 418	483 804	4 082 401	12 707 409	-	**20 957 225**
Derivative financial liabilities designated for hedging	369 249	564 598	1 075 220	1 201 833	6 296 540	5 870 031	-	**15 377 471**
Amounts due to customers	534 832 665	91 255 902	56 451 884	57 222 040	115 583 121	6 281 035	-	**861 626 647**
Other financial liabilities	-	-	-	-	-	-	16 783 329	**16 783 329**
Total financial liabilities	**591 274 628**	**99 739 965**	**58 906 671**	**61 011 981**	**127 381 392**	**56 156 178**	**16 783 329**	**1 011 254 144**
Net position	**(299 019 558)**	**47 758 876**	**(6 607 671)**	**40 591 005**	**96 709 703**	**302 588 340**	**9 287 075**	
Accumulated gap	**(299 019 558)**	**(251 260 682)**	**(257 868 353)**	**(217 277 348)**	**(120 567 645)**	**182 020 695**	**191 307 770**	

As shown in the table above, as at 31 December 2019 the maximum negative accumulated gap in less than 1 month period is explained by significant amount of short-term and demand deposits in liabilities. The accumulated gap can be sufficiently covered by refinancing with the CBR (loans secured by assets available for collateral under CBR loans), repurchase agreements and sell of securities while reducing volume of the Group's participation in reverse repurchase agreements. The approximate amount of funds available from the mentioned sources is RUB 233 125 060 thousand.

(Thousands of Russian Roubles)

27. Risk management (continued)

The table below presents the liquidity gap profile as at 31 December 2018:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	15 538 848	-	-	-	-	-	-	**15 538 848**
Debt securities held for trading	-	-	-	-	-	5 309 437	-	**5 309 437**
Derivative financial assets	3 547 679	1 784 882	19 041 802	730 643	4 540 935	7 222 340	-	**36 868 281**
Derivative financial assets designated for hedging	1 515	106 855	22 852	383 342	2 523 020	3 750 566	-	**6 788 150**
Financial assets at amortised costs with banks	296 916 763	6 837 798	15 818 546	37 430 289	2 002 788	582 806	-	**359 588 990**
Financial assets at amortised costs with customers	82 854 378	48 142 823	75 550 744	105 622 058	235 630 343	315 350 359	-	**863 150 705**
Debt securities FVTOCI	-	-	-	-	1 768 393	45 304 272	123 692	**47 196 357**
Other financial assets	-	-	-	-	-	-	11 644 533	**11 644 533**
Total financial assets	**398 859 183**	**56 872 358**	**110 433 944**	**144 166 332**	**246 465 479**	**377 519 780**	**11 768 225**	**1 346 085 301**
Liabilities								
Amounts due to credit institutions	29 126 890	16 549 518	649 587	2 349 133	2 552 148	36 742 803	-	**87 970 079**
Financial iabilities held for trading	3 427 071	-	-	-	-	-	-	**3 427 071**
Derivative financial liabilities	3 385 724	1 415 257	7 976 297	1 435 766	2 948 094	6 491 201	-	**23 652 339**
Derivative financial liabilities designated for hedging	7 030	1 680 598	4 017 420	2 495 150	8 686 402	3 437 575	-	**20 324 175**
Amounts due to customers	602 223 034	56 787 988	106 823 279	83 344 058	121 527 763	44 934 746	-	**1 015 640 868**
Debt securities issued	-	-	818	46 735	-	-	-	**47 553**
Other financial liabilities	-	-	-	-	-	-	12 382 214	**12 382 214**
Total financial liabilities	**638 169 749**	**76 433 361**	**119 467 401**	**89 670 842**	**135 714 407**	**91 606 325**	**12 382 214**	**1 163 444 299**
Net position	**(239 310 566)**	**(19 561 003)**	**(9 033 457)**	**54 495 490**	**110 751 072**	**285 913 455**	**(613 989)**	
Accumulated gap	**(239 310 566)**	**(258 871 569)**	**(267 905 026)**	**(213 409 536)**	**(102 658 464)**	**183 254 991**	**182 641 002**	

(Thousands of Russian Roubles)

27. Risk management (continued)

Analysis of financial assets and liabilities by remaining contractual maturities. The tables below summarise the maturity profile of financial assets and liabilities as at 31 December 2019 and 31 December 2018 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2019							
Cash and cash balances	24 268 658	-	-	-	-	-	**24 268 658**
Derivative financial assets:							
- Contractual amounts payable	(45 250 337)	(24 429 852)	(24 813 900)	(11 452 477)	(56 024 653)	(86 376 053)	**(248 347 272)**
- Contractual amounts receivable	48 264 765	25 115 250	28 498 668	14 952 453	64 529 437	98 190 655	**279 551 228**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(468 149)	(1 117 646)	(1 558 396)	(22 926 471)	(30 267 040)	(3 250 946)	**(59 588 648)**
- Contractual amounts receivable	434 587	1 792 413	2 185 443	26 175 553	36 093 675	4 857 283	**71 538 954**
Financial assets at amortized cost							
- Amounts due from credit institutions	220 536 699	7 051 123	5 442 500	6 712 138	7 093 526	561 222	**247 397 208**
- Loans to customers	49 561 985	58 387 060	59 899 113	120 651 041	287 362 023	419 074 925	**994 936 147**
Financial assets at fair value through other comprehensive income							
- held by the Group	3 174 935	93 752 009	1 208 793	1 463 772	7 479 246	69 855 153	**176 933 908**
- pledged under repurchase agreements	-	-	22 685	22 685	90 740	1 312 727	**1 448 837**
Total undiscounted financial assets	**300 523 143**	**160 550 357**	**70 884 906**	**135 598 694**	**316 356 954**	**504 224 966**	**1 488 139 020**
Financial liabilities as at 31 December 2019							
Amounts due to credit institutions	54 844 626	6 958 414	1 869 224	4 018 241	8 859 608	39 562 275	**116 112 388**
Derivative financial liabilities:							
- Contractual amounts payable	56 153 540	41 147 046	11 824 396	9 894 791	31 366 041	111 192 350	**261 578 164**
- Contractual amounts receivable	(53 927 906)	(39 253 405)	(11 236 877)	(6 820 032)	(25 862 526)	(96 933 140)	**(234 033 886)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	1 166 588	7 193 676	14 398 243	31 020 493	47 670 877	13 152 287	**114 602 164**
- Contractual amounts receivable	(1 434 127)	(7 455 394)	(13 014 685)	(26 107 100)	(40 236 410)	(10 137 853)	**(98 385 569)**
Amounts due to customers	535 700 577	92 648 256	56 937 608	58 227 326	122 644 367	6 350 666	**872 508 800**
Total undiscounted financial liabilities	**592 503 298**	**101 238 593**	**60 777 909**	**70 233 719**	**144 441 957**	**63 186 585**	**1 032 382 061**

(Thousands of Russian Roubles)

27. Risk management (continued)

The maturity profile of the financial assets and liabilities at 31 December 2018 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2018							
Cash and cash balances	15 538 848	-	-	-	-	-	**15 538 848**
Debt securities held for trading:							
- held by the Group	-	-	-	-	-	5 309 437	**5 309 437**
Derivative financial assets:							
- Contractual amounts payable	(84 373 007)	(33 660 360)	(46 145 975)	(15 925 016)	(40 233 172)	(49 247 352)	**(269 584 882)**
- Contractual amounts receivable	87 649 741	32 590 008	65 873 615	17 884 121	45 927 812	55 303 504	**305 228 801**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(563 558)	(1 771 987)	(3 603 424)	(6 480 805)	(28 377 479)	(8 016 487)	**(48 813 740)**
- Contractual amounts receivable	703 781	2 718 626	3 130 293	7 073 844	32 258 933	10 007 858	**55 893 335**
Financial assets at amortized cost							
- Amounts due from credit institutions	297 923 785	7 001 894	16 776 404	37 977 783	2 020 362	582 806	**362 283 034**
- Loans to customers	95 729 973	64 224 887	90 837 519	136 726 829	318 286 676	409 377 046	**1 115 182 930**
Financial assets at fair value through other comprehensive income							
- held by the Group	383 634	517 309	841 194	1 512 149	7 508 631	70 312 001	**81 074 918**
- pledged under repurchase agreements	35 150	-	-	35 150	140 600	1 456 950	**1 667 850**
Total undiscounted financial assets	**413 028 347**	**71 620 377**	**127 709 626**	**178 804 055**	**337 532 363**	**495 085 763**	**1 623 780 531**
Financial liabilities as at 31 December 2018							
Amounts due to credit institutions	29 163 496	17 885 756	1 746 103	4 660 754	11 520 313	51 317 759	**116 294 181**
Financial iabilities held for trading	3 427 071	-	-	-	-	-	**3 427 071**
Derivative financial liabilities:							
- Contractual amounts payable	54 029 960	24 545 563	82 837 070	28 031 612	32 056 028	51 342 933	**272 843 166**
- Contractual amounts receivable	(50 030 364)	(26 239 326)	(74 170 748)	(25 428 488)	(27 162 551)	(45 246 961)	**(248 278 438)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	1 983 205	15 154 729	48 784 696	40 715 067	99 005 223	9 552 327	**215 195 247**
- Contractual amounts receivable	(1 952 476)	(12 923 139)	(44 700 863)	(37 435 217)	(89 184 353)	(7 543 358)	**(193 739 406)**
Amounts due to customers	603 343 153	57 689 611	109 134 160	85 622 083	129 905 508	50 451 620	**1 036 146 135**
Debt securities issued	-	2 030	846	47 140	-	-	**50 016**
Total undiscounted financial liabilities	**639 964 045**	**76 115 224**	**123 631 264**	**96 212 951**	**156 140 168**	**109 874 320**	**1 201 937 972**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

(Thousands of Russian Roubles)

27. Risk management (continued)

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 18).

The table below shows the contractual expiry by maturity of financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2019	17 961 491	5 940 372	10 572 255	219 146 735	148 149 478	416 227 424	**817 997 755**
2018	17 017 813	46 067 536	111 588 349	232 168 606	285 086 222	146 972 661	**838 901 187**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Group distinguishes the following market risk categories:

1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments;
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates;
3. Spread Risk is the risk that changes in credit spreads will affect bond prices;
4. Basis spread risk is the risk that changes in cross-currency basis spread or between different bases (for example, 3 months and overnight) will affect the value of financial instruments;
5. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis, the Group assesses interest rate, currency and basis spread risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VaR") methodology for the measuring of all risks mentioned above. VaR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. In addition, the Group calculates SVaR, a measure of the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon in a period of market stress. The Group distinguishes the following types of VaR:

1. Total VaR is calculated for all risk factors taken in aggregate;
2. Interest Rate VaR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VaR is originated from currency risk exposure of the portfolio;
4. Spread VaR is originated from spread risk exposure of the bond portfolio;
5. Residual VaR is originated from other factors exposure of the bond portfolio.

The Group also calculates an Incremental Risk Charge (hereinafter – "IRC") that complements additional standards being applied to VaR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which measures a change of present value of the Group's position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group calculates a Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

27. Risk management (continued)

The Group additionally calculates (and includes in VaR calculation as a component of interest rate risk) the change of present value of the Group's position if cross-currency basis swap rates change by one basis point.

In 2019 two additional metrics were introduced. These are Loss Warning Level (hereinafter –"LWL") and Stress Test Warning Level (hereinafter – "STWL"). LWL defined as the accumulated economic P&L over a 60 calendar-day rolling period. STWL is the maximum conditional loss in a set of severe market scenarios.

Since monitoring of VaR, BPV and CPV is an integral part of the risk management procedures, VaR, CPV and BPV limits and warning levels have been established and exposures are reviewed daily against the limits and warning levels by Market Risk Unit (hereinafter – "MRU"). IRC exposure is reviewed weekly.

The Group has adopted the following limits:

- Total VaR limit for the trading portfolio, and a warning level for total VaR for the whole portfolio;
- Warning level for Total VaR for banking book;
- Total SVaR limit for the trading portfolio;
- IRC limit for trading and total bond positions;
- Total BPV limit for the whole portfolio;
- BPV limits split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position;
- LWL and STWL limits for total position.

In addition, local ALCO sets limits for BPV by timeband and business segments and VaR warning levels for subportfolios.

Usage of VaR enables management of position taking into consideration complex relationships and interdependencies between different risk factors. Typically, MRU analyses VaR figures and sets BPV limits which help traders and the Finance Department to optimize risk profiles in volatile market environment.

Verification of applied methodologies is carried out through back- and stress-testing. Bank estimates its own internal models of market risk regarding data quality and risk factor completeness on a regular basis.

In addition, MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

The control of economic and regulatory open foreign currency position is performed by MRU on a daily basis against the established limits.

All limit violations are analyzed by MRU on a daily basis, and all limit breaches are escalated and reported to local ALCO and to the relevant UniCredit Group functions.

According to Basel III regulatory standards the Credit Valuation Adjustment (modification of derivatives market value taking into account counterparty credit risk) and corresponding impact on capital are calculated monthly by the Group. Additionally, the requirements of minimum mark-up of derivative transactions with corporate counterparties are applied.

In an effort to control the Group's trading strategy the sensitivity analysis of statement of comprehensive income in terms of risk factors is performed monthly and presented to ALCO. The analysis was expanded to include historical impact of the risk factors.

In 2019 Group continued to improve its VaR model by introduction of more detailed risk factors on interest rate curves distinguishing different curve types for every currency.

(Thousands of Russian Roubles)

27. Risk management (continued)

Interest rate risk management of the banking book. The Group uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book. Risk appetite apply generally used for IRRBB limitation for economic value sensitivity and net interest income sensitivity, which are used to define granular metric restriction.

In the banking book interest rate risk position there is a discrepancy between economic (behavioral) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on the historical observation, the Group developed models that allowed applying a behavioral approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. Behavioral models applied to non-interest bearing current accounts and a prepayment model for retail loans affecting interest rate risk position. For avoiding an accounting discrepancy between hedged items of the banking book calculated on an accrual basis and hedging instruments calculated on a mark-to-market basis and, as a result, to stabilize net interest income, the Group uses hedge accounting methodology. Currently, Macro Cash Flow Hedge and Portfolio Fair Value Hedge are used.

Objectives and limitation of VaR methodology (unaudited). The Group uses Basel II compliant VaR methodology based on historical simulations. Historical simulation is a method that allows to calculate VaR without making any assumptions about the statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VaR is given by the percentile evaluation with the 99% confidence interval.

VaR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to an underestimation of future losses. The VaR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VaR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

One single model is used to estimate VaR for all purposes (regulatory, market risk disclosures, etc.). Changes to VaR model/parameters (if any are required) are validated using the back-testing approach mentioned above. Regulatory requirements for approval, if any, are handled at the UniCredit Group level.

Computational results (unaudited). The following table shows an estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices:

	2019	2018
Total VaR	493 552	700 958
Interest Rate VaR	599 785	625 839
Spread VaR	351 535	294 919
Foreign exchange VaR	4 523	16 926

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits and debt securities issued on the liability side offset by interest rate swaps.

The following table shows estimation of the potential losses that could occur on the banking book risk positions as a result of movements in market rates and prices:

	2019	2018
Total VaR	493 475	733 111
Interest Rate VaR	601 598	654 432
Spread -VaR[1]	351 535	272 427

[1] Spread risk in the banking book arises from bonds comprising investment portfolio.

(Thousands of Russian Roubles)

27. Risk management (continued)

The following table shows estimation of the potential losses that could occur on the trading book risk positions as a result of movements in market rates and prices:

	2019	2018
Total VaR	33 737	54 869
Interest Rate VaR	30 886	41 162
Spread VaR	-	30 857
Foreign exchange VaR	4 523	16 926

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Strategic Risks Management Department together with Financial Markets Department controls currency risk by management of the open currency position in order to minimize the Group's losses from significant currency rates fluctuations toward its national currency, while also utilizing short-term profit opportunities. The Group does not keep long-term exposures to currency risk. The Group uses spots, swaps and forwards as main instruments of risk hedging.

The Group's exposure to foreign currency exchange rate risk as at 31 December 2019 is presented in the table below:

	RUB	USD	EUR	Other currencies	Total
Non-derivative financial assets					
Cash and cash equivalents	19 298 216	2 422 229	2 388 452	159 761	**24 268 658**
Financial assets at amortized cost					
- Amounts due from credit institutions	102 506 789	117 337 118	22 492 515	3 476 105	**245 812 527**
- Loans to customers	520 528 632	169 823 768	43 418 123	4	**733 770 527**
Financial assets at fair value through other comprehensive income:					
- held by the Group	138 320 230	-	6 747	-	**138 326 977**
- pledged under repurchase agreements	678 732	-	-	-	**678 732**
Total non-derivative financial assets	**781 332 599**	**289 583 115**	**68 305 837**	**3 635 870**	**1 142 857 421**
Non-derivative financial liabilities					
Amounts due to credit institutions	57 610 906	34 619 119	4 233 851	45 596	**96 509 472**
Amounts due to customers	488 625 703	292 698 204	70 381 997	9 920 743	**861 626 647**
Total non-derivative financial liabilities	**546 236 609**	**327 317 323**	**74 615 848**	**9 966 339**	**958 136 119**
OPEN BALANCE SHEET POSITION	**235 095 990**	**(37 734 208)**	**(6 310 011)**	**(6 330 469)**	**184 721 302**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**(50 282 726)**	**38 167 101**	**2 992 795**	**6 468 942**	**(2 653 888)**
OPEN POSITION	**184 813 264**	**432 893**	**(3 317 216)**	**138 473**	**182 067 414**

(Thousands of Russian Roubles)

27. Risk management (continued)

The Group's exposure to foreign currency exchange rate risk as at 31 December 2018 is presented in the table below:

	RUB	USD	EUR	Other currencies	Total
Non-derivative financial assets					
Cash and cash equivalents	9 715 111	2 888 346	2 748 044	187 347	**15 538 848**
Debt securities held for trading:					
- held by the Group	3 752 528	1 556 909	-	-	**5 309 437**
Financial assets at amortized cost					
- Amounts due from credit institutions	72 014 640	248 317 194	33 488 322	5 768 834	**359 588 990**
- Loans to customers	512 694 504	305 578 064	44 878 137	-	**863 150 705**
Financial assets at fair value through other comprehensive income:					
- held by the Group	25 848 945	20 403 064	6 747	-	**46 258 756**
- pledged under repurchase agreements	937 601	-	-	-	**937 601**
Total non-derivative financial assets	**624 963 329**	**578 743 577**	**81 121 250**	**5 956 181**	**1 290 784 337**
Non-derivative financial liabilities					
Amounts due to credit institutions	43 526 139	36 703 050	7 701 872	39 018	**87 970 079**
Amounts due to customers	537 242 434	382 223 495	79 046 996	17 127 943	**1 015 640 868**
Debt securities issued	47 553	-	-	-	**47 553**
Financial liabilities held for trading	3 427 071	-	-	-	**3 427 071**
Total non-derivative financial liabilities	**584 243 197**	**418 926 545**	**86 748 868**	**17 166 961**	**1 107 085 571**
OPEN BALANCE SHEET POSITION	**40 720 132**	**159 817 032**	**(5 627 618)**	**(11 210 780)**	**183 698 766**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**140 070 470**	**(159 344 939)**	**7 428 490**	**11 412 774**	**(433 205)**
OPEN POSITION	**180 790 602**	**472 093**	**1 800 872**	**201 994**	**183 265 561**

The following table presents sensitivities of profit and loss and equity to changes in exchange rates applied at the balance sheet date by 10%, with all other variables held constant:

	2019 impact	2018 impact
USD strengthening by 10%	43 289	47 209
USD weakening by 10%	(43 289)	(47 209)
EUR strengthening by 10%	(331 722)	180 087
EUR weakening by 10%	331 722	(180 087)

Management belives that sensitivity analysis does not necessarily reflect currency risk adherent to the Group due to the fact that amounts as of the end of reporting periods do not reflect the amounts throughout the year.

27. Risk management (continued)

Operational risk

Operational risk definition and risk management principles. The Group defines as "operational" the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The management of operational risk as defined above is based on the following fundamental principles:

- Involvement of corporate governing bodies in all the relevant decisions regarding the operational risk management framework;
- Independence of operational risk management function from the risk taking functions;
- Effective system of controls at different control levels (line, second level and third level);
- Clear separation between the operational risk management framework development and validation functions;
- Involvement of operational risk management function in the evaluation of the risks within new products, processes, systems and markets;
- Effective and efficient escalation and decision-making process;
- Adequate and periodical disclosure and reporting process.

Operational risk management framework. The Group is fully compliant with the UniCredit Group's operational risk management framework in its guiding standards and principles as well as with the legislation of the Russian Federation.

The implementation of the standards and principles is substantially supported by the exhaustive set of internally approved normative documents being constantly maintained and updated in accordance with both external and internal requirements.

The Board of Management holds the responsibility for the establishment, governance and continuous monitoring of the effective and efficient operational risk management system. The Board of Management establishes the general policies of the Group's operational risk management system and has control over its due implementation and its actual operations including but not limiting to:

- Approval of the operational risk framework and any essential changes to it as well as all internal normative documents of the Group guiding the operational risk management system;
- Establishment of an operational risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;
- Assurance that the tasks and responsibilities of the functions involved in the operational risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;
- Establishment of informing and reporting system providing accurate, complete and timely information on operational risk exposure and other significant operational risk management issues.

For further enforcement of the operational risk management system, Operational Risk Committee being a governing body primarily is responsible for making decisions on operational risk topics and ongoing monitoring of developments affecting the Group's business and promoting the exchange of information among the divisions and individual operating functions (Retail Banking, CIB, CFO, Legal, HR, Security) representing line controls.

27. Risk management (continued)

The Operational Risk Management Unit (hereinafter – "ORM Unit") performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM Unit's main methodologies, tools and activities to identify, assess, monitor and mitigate operational risk are focused on but not limited to:

- Loss data collection including general ledger analysis, accounts reconciliation, transitory and suspense accounts monitoring, data quality control;
- Operational risk indicators;
- Scenario analysis;
- ELOR monitoring;
- Insurance coverage;
- Capital at risk allocation according to the Basel II Standardized Approach;
- New products/processes analysis from the operational risk impact perspective;
- Credit bureaus cooperation;
- Reporting and escalating any of the essential Operational Risk issues to the Board of Management, Internal Audit Department and competent UniCredit Group functions;
- Granting to the Operational Risk Committee information of the relevant operational risk events having significant effect on the Group's risk profile.

In order to assure and sustain the efficacy of the Operational Risk identification and mitigation processes, a Permanent Workgroup is operating which aims at identifying the source of Operational Risk taking measures for prevention of the operational risks and reduce the Operational Risk exposure, leveraging mainly on the expertise of the ORM Unit, Internal Audit Department and the invited experts from relevant divisions of the Bank.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the operational risk management system, operational risk identification and the inherent local internal validation process.

28. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

UCBR follows methodology adopted by the UniCredit Group, which belongs to the income approach family – Discounted Cash Flow model. It is defined as the sum of the present value of expected future cash flow specific to the instrument, discounted using a rate that incorporates all risk factors, mainly leveraging on market inputs rather than on internal parameters. Main inputs for calculating fair value include:

- Cash flows;
- Risk-free interest rates;
- Credit spreads;
- Risk neutral cumulative default probability;
- Risk premium;
- Correlations;
- Internal cumulative probability of default;
- Loss given default.

(Thousands of Russian Roubles)

28. Fair values of financial instruments (continued)

In the case of the presence of liquid instruments in the market, an estimate of the credit spread can be derived from market quotes.

For fair value computation own credit spread is used, determined on the basis of the prices of Group's unsecured senior bonds.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Except as detailed in the following table, the Group consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate their fair value.

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	245 812 527	246 692 408	359 588 990	363 319 774
Loans to customers	733 770 527	734 299 930	863 150 705	863 028 445
Financial liabilities				
Amounts due to credit institutions	96 509 472	97 279 889	87 970 079	90 949 659
Amounts due to customers	861 626 647	872 989 818	1 015 640 868	1 024 310 611
Debt securities issued	-	-	47 553	47 796

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at amortized cost, grouped into Levels 1 to 3.

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	-	246 692 408	246 692 408
Loans to customers	-	-	734 299 930	734 299 930
Financial liabilities				
Amounts due to credit institutions	-	-	97 279 889	97 279 889
Amounts due to customers	-	-	872 989 818	872 989 818

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	-	363 319 774	363 319 774
Loans to customers	-	-	863 028 445	863 028 445
Financial liabilities				
Amounts due to credit institutions	-	-	90 949 659	90 949 659
Amounts due to customers	-	-	1 024 310 611	1 024 310 611
Debt securities issued	-	47 796	-	47 796

(Thousands of Russian Roubles)

28. Fair values of financial instruments (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Derivative financial assets	-	23 884 409	-	23 884 409
Derivative financial assets designated for hedging	-	9 873 372	-	9 873 372
Financial assets at fair value through other comprehensive income:				
- held by the Group	30 152 229	108 051 056	-	138 203 285
- pledged under repurchase agreements	678 732	-	-	678 732
Total	**30 830 961**	**141 808 837**	**-**	**172 639 798**
Financial liabilities at fair value				
Derivative financial liabilities	-	20 957 225	-	20 957 225
Derivative financial liabilities designated for hedging	-	15 377 471	-	15 377 471
Total	**-**	**36 334 696**	**-**	**36 334 696**

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Debt securities held for trading:				
- held by the Group	2 365 174	2 944 263	-	5 309 437
Derivative financial assets	-	36 868 281	-	36 868 281
Derivative financial assets designated for hedging	-	6 788 150	-	6 788 150
Financial assets at fair value through other comprehensive income:				
- held by the Group	37 325 950	8 809 114	-	46 135 064
- pledged under repurchase agreements	937 601	-	-	937 601
Total	**40 628 725**	**55 409 808**	**-**	**96 038 533**
Financial liabilities at fair value				
Financial liabilities held for trading	3 427 071	-	-	3 427 071
Derivative financial liabilities	-	23 652 339	-	23 652 339
Derivative financial liabilities designated for hedging	-	20 324 175	-	20 324 175
Total	**3 427 071**	**43 976 514**	**-**	**47 403 585**

The table above does not include financial assets at fair value through other comprehensive income equity investments of RUB 123 692 thousand (31 December 2018: RUB 123 692 thousand) which do not have a quoted market price in an active market.

(Thousands of Russian Roubles)

28. Fair values of financial instruments (continued)

During the year ended 31 December 2019 transfers from level 2 to level 1 amounted to RUB 8 533 345 thousand for financial assets at fair value through other comprehensive income (31 December 2018: RUB 4 849 085 thousand). During the year ended 31 December 2019 there were no transfers between fair value levels for trading securities (31 December 2018: there were no transfers between fair value levels for trading securities).

29. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be conducted on the same terms, conditions and amounts as transactions between unrelated parties.

Balances and transactions with UniCredit S.P.A were as follows:

	31 December 2019	Weighted average interest rate, %	31 December 2018	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	649 707	6.5%	-	-
- In EUR	460 795	0.0%	571 226	0.0%
- In USD	95 838 180	2.3%	91 379 215	3.3%
Derivative financial assets	10 504 983		4 358 968	
Derivative financial assets designated for hedging	9 222 110		4 853 841	
Other assets	103 486		162 569	
Amounts due to credit institutions				
- In Russian Roubles	129 183	0.0%	145 886	0.0%
- In EUR	448 711	1.8%	539 270	1.7%
- In USD	30 327 115	11.8%	33 839 765	12.8%
Derivative financial liabilities	11 094 170		14 160 452	
Derivative financial liabilities designated for hedging	10 896 528		16 573 195	
Other liabilities	563 430		530 001	
Commitments and guarantees issued	10 885 422		5 529 485	
Commitments and guarantees received	10 972 433		23 853 936	

	2019	2018
Interest income	24 662 338	22 702 089
Interest expense	(16 253 977)	(14 532 521)
Fee and commission income	19 883	39 691
Fee and commission expense	(134 733)	(307 399)
Gains/(losses) on financial assets and liabilities held for trading	19 505 827	(28 365 172)
Fair value adjustments in portfolio hedge accounting	(2 773 372)	3 014 374
(Personnel expenses)/recovery of personnel expenses	(10 441)	6 657
Other administrative costs	(68 043)	(87 787)

(Thousands of Russian Roubles)

29. Related party disclosures (continued)

Balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group are as follows:

	31 December 2019	Weighted average interest rate, %	31 December 2018	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	649 714	6.5%	47	0.0%
- In EUR	11 665 800	0.0%	16 422 965	0.0%
- In USD	2 341 480	0.0%	123 539	0.0%
- In other currencies	153 918	0.0%	2 569	0.0%
Derivative financial assets	1 518 492		3 622 258	
Derivative financial assets designated for hedging	651 020		1 429 811	
Loans to customers				
- In Russian Roubles	705 797	5.8%	1 010 205	5.8%
Intangible assets	125 428		103 990	
Other assets	165 993		8 472	
Amounts due to credit institutions				
- In Russian Roubles	4 307 486	3.5%	5 178 908	9.1%
- In EUR	3 397 399	2.1%	7 131 383	1.4%
- In USD	1 699 138	3.0%	1 484 764	3.4%
Derivative financial liabilities	3 007 703		3 023 885	
Derivative financial liabilities designated for hedging	1 606 352		1 752 537	
Amounts due to customers				
- In Russian Roubles	695 312	4.0%	842 935	5.6%
Other liabilities	279 833		203 497	
Commitments and guarantees issued	28 581 450		31 229 672	
Commitments and guarantees received	16 090 783		3 648 690	

	2019	2018
Interest income	678 566	(111 413)
Interest expense	(1 663 384)	(2 444 687)
Fee and commission income	108 338	144 968
Fee and commission expense	(82 787)	(275 776)
Gains on financial assets and liabilities held for trading	420 666	2 782 844
Fair value adjustments in portfolio hedge accounting	730 532	598 826
Other income	485	485
Personnel expenses	(5 230)	(20 576)
Other administrative expenses	(259 677)	(240 671)

Balances and transactions with associate are as follows:

	31 December 2019	Weighted average interest rate, %	31 December 2018	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	11 251 984	8.2%	22 614 567	9.0%
Derivative financial assets	58 196		113 405	
Amounts due to credit institutions				
- In Russian Roubles	12 996	0.0%	24 173	0.0%
- In EUR	4 777	0.0%	1 206	0.0%
- In USD	1 843	0.0%	3 299	0.0%
Derivative financial liabilities	341 546		-	
Investments in associate	8 202 044		6 912 137	
Commitments and guarantees issued	177 735		296 620	

(Thousands of Russian Roubles)

29. Related party disclosures (continued)

	2019	2018
Interest income and similar revenues	1 968 978	2 041 001
Interest expense and similar charges	(722 648)	(305 579)
Fee and commission income	17 994	62 201
Losses on financial assets and liabilities held for trading	(731 832)	(117 091)
Share of gains of associate	1 263 054	954 589

Balances and transactions with key management personnel are as follows:

	31 December 2019	31 December 2018
Amounts due to customers	464 854	456 038
Accrued liabilities on remuneration	296 161	336 518
Other liabilities	90 142	74 119

	2019	2018
Interest expense	(17 702)	(12 109)
Personnel expenses, including:	(301 540)	(401 864)
short-term benefits	(241 201)	(222 690)
long-term benefits	(54 991)	(168 149)
post-employment benefits	(5 348)	(11 025)

Subordinated loans from the members of the UniCredit Group were as follows for 2019 and 2018:

	31 December 2019	31 December 2018
	UniCredit S.p.A	UniCredit S.p.A
Subordinated loans at the beginning of the year	33 517 157	27 718 054
Accrual of interest, net of interest paid	(98 789)	90 628
Effect of exchange rates changes	(3 637 960)	5 708 475
Subordinated loans at the end of the year	**29 780 408**	**33 517 157**

Прошнуровано, пронумеровано и
скреплено печатью 86 страниц

Партнер
АО «Делойт и Туш СНГ»

Зиневич А.

АКЦИОНЕРНОЕ ОБЩЕСТВО "ДЕЛОЙТ И ТУШ СНГ"
для аудиторских
заключений и отчетов
Россия, г. Москва,
ул. Лесная, д. 5